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Australian Energy Market Operator

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Submission to Draft ISP Methodology

Draft: For the Integrated System Plan (ISP)

Submitted to: ISP@aemo.com.au

AGL Energy (**AGL**) welcomes the opportunity to comment on the Australian Energy Market Operator's (**AEMO**) Draft Integrated System Plan (ISP) Methodology paper.

AGL is a leading integrated essential service provider, with a proud 184-year history of innovation and a passionate belief in progress – human and technological. We deliver 4.2 million gas, electricity, and telecommunications services to our residential, small and large business, and wholesale customers across Australia. We operate Australia's largest electricity generation portfolio, with an operated generation capacity of 11,208 MW, which accounts for approximately 20% of the total generation capacity within Australia's National Electricity Market.

AGL agrees with AEMO in its introductory remarks that 'each individual process is important in the overall ISP process, however linkages and interactions between the processes are also critical in ensuring the ISP delivers an integrated solution. We therefore think it important to highlight the linkages and interaction with two of these processes.

1. Treatment of committed and anticipated projects
2. Assessing the risk of early generation closures

Categorising anticipated generation projects and assessing the risk of early generation closures should be made (or at least assessed) using consistent spot price curves. These two ISP modelling methodologies are strongly interlinked and as such the economic assessments of early generation closures should be consistent with the revenues of new and committed projects. These prices will affect the modelling beyond the 2025 horizon due to thermal generation closure dates.

If revenues are projected for existing generation that will impact retirement timelines, the same price curves should be used for assessing new entrants. AGL understands this is a departure from the normal process of capacity expansion but some recognition needs to be made of the potential inconsistency in revenue. A comparison of the expected returns based on the spot price curves to that assumed in the capital cost assumptions would be useful as a comparison.

AGL would like AEMO to explicitly consider changes to generator operations that could impact early retirements, and not leave this solely defined by wholesale energy prices as determined by typical bids. For example, changes that could potentially lower costs, like two-shifting; seasonal mothballing and minimum generation improvement should be considered. It is likely these changes would also reduce fixed operating

costs further reducing the likelihood of retirement. AGL would also like to recommend Including revenue from ancillary service markets or perhaps future operating reserve or inertia markets, potentially by using historical FCAS prices. AGL strongly encourages AEMO to consider the system strength remediation costs to wind and solar plants and to make sure that they are adequately captured.

As a more general comment, AGL would like AEMO to consider some commentary on the retailer perspective of the ISP. The ability for retailers to hedge their portfolio in each region should be considered when optimising generation mixes and their potential impact on outcomes of the ISP. Forward contracting is an integral part of the market and the ability for retailers to purchase contracts over the long term should be a key consideration in any overall system plan, this will become particularly important in assessing proposed measures such as the Physical RRO or even changes to the current RRO.

If you have any queries about this submission, please contact Shevy Moss Feiglin smossfeiglin@agl.com.au.

Yours sincerely,

Chris Streets

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