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Ms Sara O'Connor
Assistant Director, Market Regulations
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Dear Ms O'Connor

AGL Submission - 2016/17 Wholesale Electricity Market Report for the Minister Discussion Paper

AGL Energy (AGL) welcomes the opportunity to submit a response to the Economic Regulation Authority (ERA) on its review of the Western Australian Wholesale Electricity Market (WEM). AGL is a significant retailer of energy, providing energy solutions to over 3.7 million customers throughout eastern and Western Australia (WA).

AGL is one of Australia's largest integrated energy companies and the largest ASX listed owner, operator and developer of renewable generation. Our diverse power generation portfolio includes base, peaking and intermediate generation plants, spread across traditional thermal generation, battery storage and renewable sources.

In addition, AGL is continually innovating our suite of distributed energy services and solutions for customers of all sizes (residential, business and networks). Our 'beyond the meter' energy solutions include new and emerging technologies such as energy storage, electric vehicles, solar PV systems, digital meters, and home energy management services delivered by digital applications.

The ERA Discussion Paper seeks comment on the operation of the WEM and has suggested various areas which may be negatively impacting the effective operation of the market, including delays to various stalled reforms intended to address market effectiveness and arrangements to mitigate misuse of market power, in both the energy and capacity markets.

AGL wholly supports market reforms which will promote full and open competition across new and existing market players as a mechanism to drive efficient prices and encourage innovation in product and services across gas and electricity markets (including dual fuel products). Ultimately, full retail competition will enable customer to make efficient investment decisions based on their energy consumption behaviour and values.

Market Design Principles

AGL encourage the ERA to apply the following policy principles in its assessment of WEM reforms to ensure the sectors smooth transformation, while maintaining the ongoing delivery of secure, affordable and sustainable energy:

- where feasible, using competitive markets to deliver and value energy services;
- establishing policy, regulatory and market frameworks that are technology neutral;
- establishing appropriate technology standards that do not contradict broader policy objectives and are based, where possible, on international standards that encourage sector investment, maintains best practice, promotes customer choice, supports competition and encourages economies of scale;
- utilising price signals to encourage efficient investment and operational decisions;

- allocating risks to parties that are best able to manage them;
- introducing regulation only where necessary to address a market failure, including to ensure system safety, security and reliability.
ensuring an equal playing field where different providers of products and services, in markets, must compete openly on their merits.
- establishing a customer protections framework that ensures all customers have the basic right to access energy.
- ensuring a framework that is inclusive of all customers including vulnerable customers the opportunity to participate and benefit from the energy market transformation.

Wholesale Market Reform

AGL seeks an open and competitive wholesale market which supports more retail entrants. The AEMC's recent report on energy market competition emphasised the benefits of a liquid hedge contract market to manage wholesale market risks in support of retail competition¹.

AGL believes that the limited competition within generating and capacity mechanisms and the uncompetitive industry structure is hampering investment leading to development and natural market growth. All of these limitations drive poor retail market outcomes, which lead to costs being badly allocated amongst customers.

The recent announcement by the WA Treasurer and Energy Minister regarding the removal of subsidies for power purchasing is a clear signal that the WA market reform process is continuing and that the balance between wholesale and retail is being moved to a level playing field which in turn should be an enabler for an open and competitive market.²

Advanced Metering

AGL strongly supports the implementation of advanced meters as an enabling technology. Digital metering technology can provide significant benefits to consumers. Advanced meters as an enabler to the development and introduction of more innovative retail and behind-the-meter products and services, including: Solar PV, energy storage, time of use tariffs and other innovative retail and network products.

For example, the detailed information that they capture allows customers to become much better informed about their energy use than was previously possible. With this information, they are better equipped to decide on new products and services and so become more empowered market participants.

Retailers, distributors and third party entrants are currently competing on the development and provision of platforms and tools which give customers easy access to insightful and usable data.

In summary, AGL believes that competition is the critical driver of performance and innovation. A strong and open competition framework in the generation and retail markets, will promote greater innovation and choice for customers, and the creation of new network service market in the Western Australia.

AGL welcome the opportunity to discuss our views on this matter. If you have any queries please contact Mark Riley on mriley@agl.com.au or 0475 805 262.

Yours sincerely,

Elizabeth Molyneux

Head of Energy Market Regulation

¹ AEMC, 2017 AEMC Retail Energy Competition Review, 2017, p iv, www.aemc.gov.au

² Mercer, D, Perth Weekend West, 'Power Play to lift prices 12pc', 9 Sep 2017, p7.