

A few
words.

28 June 2013

Reena Kwong
Australian Energy Market Operator
Baulkham Hills BC NSW 2153
PO Box 7326

By Email: reena.kwong@aemo.com.au

Dear Ms Kwong

Directions Paper –Value of Customer Reliability

AGL Energy Ltd (AGL) welcomes the opportunity to make a submission in response to the Australian Energy Market Operator's (AEMO) Directions Paper: Value of Customer Reliability (VCR) released on 31 May 2013.

AGL operates across the energy supply chain in the National Electricity Market (NEM) and has investments in energy retailing – with over 3.5 million customers, energy services, coal-fired electricity generation, gas-fired electricity generation, renewables and upstream gas extraction.

We are supportive of AEMO's review of the VCR and the adoption of a nationally consistent VCR framework to shape network planning. The use of the VCR will provide a more economic approach to network investment decisions.

VCR and MPC

We note that AEMO has stated that it will focus on measuring and calculating the VCR, rather than deciding whether the VCR should inform the Market Price Cap (MPC). However, rather than the VCR informing the level of the MPC, we believe that the MPC should inform the level of the VCR. For example, a higher VCR compared to the MPC may provide an incentive for network augmentation ahead of generation investment, which may not be the most efficient outcome. Accordingly, AGL considers that it is important that the VCR and the MPC are better aligned in order to promote efficient investment outcomes.

Approach and Methodology

We are supportive of the greater granularity that AEMO proposes with respect to determining the VCRs. This will improve transparency of NEM customer types at each transmission connection point. We also support AEMO's proposal to adopt a range of approaches to derive the VCR including choice modelling and contingent based questions, as each approach has its own benefits and limitations.

In conclusion, AGL is generally supportive of AEMO using greater granularity to determine the VCR and the methodologies that it proposes to achieve this. However, this should be balanced with the need for the VCR to be better aligned with the MPC to deliver efficient investment outcomes in the NEM.

- > Being selected as a member of the Dow Jones Sustainability Index 2006/07
- > Gaining accreditation under the National GreenPower Accreditation Program for AGL Green Energy®, AGL Green Living® and AGL Green Spirit
- > Being selected as a constituent of the FTSE4Good Index Series



If you have any queries about the submission or require further information, please contact Josynta Singh at jsingh@agl.com.au or on 03 8633 6628.

Yours sincerely,

A handwritten signature in black ink, appearing to read 'Simon Camroux', written over a light grey rectangular background.

Simon Camroux

Manager Wholesale Markets Regulation

AGL Energy Ltd

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