NSW Government

Office of Energy and Climate Change

14 November 2023

AGL Response to the Peak Demand Reduction Scheme rule change 2 consultation paper

AGL Energy (AGL) welcomes the opportunity to contribute to the Peak Demand Reduction Scheme rule change 2 consultation paper (Consultation Paper).

AGL is a leading integrated essential service provider, delivering 4.3 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 and have the largest renewables and storage portfolio of any ASX-listed company, having invested $4.8 billion in renewable and firming generation over the past 20 years and added more than 2,350 MW of new generation capacity to the grid since 2003.

AGL recognises the important role that the electricity sector has in decarbonising the economy. In September 2022, AGL released its inaugural Climate Transition Action Plan (CTAP) under the Say On Climate initiative, which states AGL's updated ambition for decarbonisation, including the following commitments:

- Targeting a full exit from coal-fired generation by the end of FY35 (up to a decade earlier than previously announced).
- Ambition to meet customer energy demand with around 12 GW of new firming and renewable assets by 2036.
- An initial target of 5 GW new firming and renewables by 2030.

AGL has undertaken several innovative trials and introduced products and services that seek to empower customers to make informed choices on how to utilise their consumer energy resources (CER) and optimise their usage to reduce emissions and manage their energy costs. After a successful Virtual Power Plant (VPP) trial in South Australia from 2017-2021, AGL now operates an expanded VPP network of 316 MW[1] across South Australia, Victoria, NSW and Queensland.

In March 2023, AGL launched its Electrify Now pilot program to empower customers on their electrification journey, aiming to help them save money on their energy bills while reducing greenhouse gas emissions. AGL has also operated its Peak Energy Rewards program for a number of years, which aims to reduce electricity demand during peak times and help support stability of the energy system. In 2022-2023, more than 100,000 Peak Energy Rewards members were able to reduce demand on the grid.

[1] Decentralised assets under orchestration: 316 MW (excluding smelters), 1,139 MW (including smelters): https://www.agl.com.au/content/dam/digital/agl/documents/about-agl/investors/2023/230810-agl-energy-limited-annual-report-2023-4-4-asx.pdf

Our feedback and recommendations in this submission have drawn on our extensive experience with several jurisdictional energy efficiency schemes and markets, and our insights into CER and demand response (DR) activities.

The role of the PDRS in the energy transition

AGL broadly supports the Peak Demand Reduction Scheme (PDRS) and believes that it has an important role to play in Australia's energy transition. With the PDRS target set to sharply increase in the coming years, there is a need to introduce a wide range of activities so that supply can keep pace with demand. AGL is therefore very supportive of the Consultation Paper's intent to increase the number of activities within the scheme. However, we urge the NSW Government to consider all viable options for DR, to maximise market participation while reducing costs for customers, and to ensure that energy remains reliable and affordable.

Where possible, the PDRS should leverage existing suitable activities from similar jurisdictional schemes to reduce costs and streamline roll-out and implementation. AGL encourages the NSW Government to collaborate with other state governments and the Australian Government to harmonise energy efficiency and performance objectives to help meet Australia's emissions reductions targets and to reduce overall costs of the scheme for Australian energy consumers.

Commercial and industrial demand response

AGL understands that the NSW Government intends to leverage the existing Wholesale Demand Response Mechanism (WDRM) to ensure that DR capacity is available to help reduce peak demand. However, we hold concerns around the impact on participation in DR from providing additional incentives to the WDRM in its current form, and not to other forms of DR.

We note that the WDRM has experienced significantly lower participation than DR mechanisms outside of the WDRM. While the Consultation Paper mentions that the WDRM is lacking financial incentive, our experiences have shown that customers find the WDRM operational risks (e.g. notification lead times, ramp rates, difficulty to opt out) to be the largest barriers. Other possible reasons for lower participation include more moderate weather conditions and improved coal power station reliability suppressing wholesale prices and participation in other DR mechanisms (e.g., Reliability and Emergency Reserve Trader (RERT), retailer-led mechanisms).

We are concerned that participants in the WDRM will receive additional financial incentives through the PDRS's Wholesale Annual Response Mechanism (WARM) for little or no additional DR capacity than is currently present, with the remaining more significant DR market effectively being shut out. Additionally, we may see perverse outcomes whereby participants register loads in the WDRM during the peak summer period to receive Peak Reduction Certificates (PRCs), then bid out of the market for the rest of the year. This would likely create an unnecessary cost burden on customers for zero or little value to the system.

The volume of DR engaged by retailers and aggregators outside of the WDRM is significant and should not be excluded from participation in the PDRS. The reality is that the WDRM is only suitable for some customers. Many customers cannot operate in the WDRM due to operational barriers and the mechanism being too inflexible for their needs. There are greater opportunities for orchestration of CER to support the energy network outside of the WDRM, through bilateral agreements directly with customers and other innovative solutions that encourage participation across households, small businesses and large wholesale and C&I customers. Retailer-led DR agreements provide flexibility and allow for mutually beneficial terms to

be agreed upon with the customer. These mechanisms complement the PDRS objectives by helping reduce the strain on the electricity grid through shifting or reducing demand during peak demand periods, and therefore should be eligible under the PDRS.

We are supportive of the exclusion of Long-Term Energy Service Agreements (LTESAs) from the PDRS, for reasons outlined in the Consultation Paper, as well as the exclusion of Long Notice RERT (LN RERT), as this capacity is already incentivised to be on standby. However, we believe that Short Notice RERT (SN RERT) *shouldn't* be excluded. Financial incentives for SN RERT only occur if the capacity is called upon, so the inclusion of this mechanism within the WARM will help to ensure that DR capacity is available when required during peak demand periods.

AGL urges the NSW Government to broaden the eligibility of the WARM to include forms of DR outside of the WDRM (e.g., bilateral DR contracts), to encourage participation from a wide range of DR resources.

Residential Demand Response and Demand Shifting

AGL broadly supports the inclusion of residential batteries in the PDRS given their ability to shift demand and aid in DR to support the stability of the energy system, while also delivering energy cost reductions to the consumer. In future phased activity releases, we hope to see C&I batteries implemented, although, we acknowledge that they may be more nuanced.

While we are supportive of batteries being registered on AEMO's Distributed Energy Resources (DER) register, retailers currently cannot access the register and therefore are unable to view which customers hold assets with DR capabilities. If retailers were provided with visibility, there would be a greater opportunity to offer and provide more targeted DR services to customers such as VPP. We therefore urge the NSW Government to engage with AEMO to expand the visibility of the DER register to retailers, at least at the NMI level or where the retailer is the financially responsible market participant (FRMP).

AGL has extensive experience with encouraging customers to deploy connected Heating, Ventilation and Air Cooling (HVAC), and other smart home appliances. Our experience highlights that customers have limited ability to correctly identify their installed hardware down to the level of detail outlined. The difficulty of obtaining the model number of the assets, such as requiring customers to consult the Greenhouse and Energy Minimum Standards (GEMS) which is geared towards manufacturers, together with low value of certificates, may result in lower customer participation rates. AGL would welcome more accessible PDRS controls that do not dissuade customers e.g., the customer being able to upload a receipt of purchase as proof of asset eligibility.

AGL has no major concerns with the data assumptions and proposed calculation method for certificates under each of the residential DR and demand shifting activities outlined in the Consultation Paper. However, the impact of emerging technologies, which are becoming more common, on the calculation of PRCs is unclear. In addition, the Consultation Paper states that residential air conditioners and batteries for DR orchestration must be signed on with a DR contract, and currently, there is a lack of detail on how this will be verified. We look forward to further engagement on this and other scheme changes going forward.

Other matters – TESSA Registry

While not directly within the scope of this consultation, we would like to take the opportunity to suggest some potential improvements to the TESSA Registry:

- Segregation of duties functions: the ability to segregate roles within the registry such as read-only, transfer/surrender, and admin functions.
- Opening/closing balance: the ability to view the opening/closing balance for each entity.
- Incoming and outgoing certificates: it was possible to view incoming and outgoing certificates in the previous registry which enabled AGL to reconcile its certificate records easily. However, currently we can only view current holdings in the TESSA Registry. We would like the ability to view certificate transfers in the TESSA Registry.

Yours sincerely,

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AGL Energy