AGL Energy Limited
T 02 9921 2999
F 02 9921 2552
agl.com.au
ABN: 74 115 061 375

Level 24, 200 George St
Sydney NSW 2000
Locked Bag 1837
St Leonards NSW 2065

Australian Government

Department of Climate Change, Energy, Environment, and Water

Office of the Capacity Investment Scheme

By email: CapacityInvestmentScheme@dcceew.gov.au

19 August 2025

Aggregated Resources in the Capacity Investment Scheme

AGL Energy (AGL) welcomes the opportunity to make a submission in response to the Australian Government's consultation on including aggregated resources in the Capacity Investment Scheme (CIS).

- **We strongly support efforts to accelerate the uptake of CER and aggregated resources.**
- **However, the CIS is poorly targeted towards this objective. The focus of CIS funding should instead remain on supporting large-scale eligible resources as it was designed to do.**
- **A key issue with using the CIS to fund customer-owned resources is a high risk of adverse customer outcomes through misaligned CIS incentives.**
- **There are several existing alternative programs to support aggregated resources with better customer and system-wide benefits. These should be utilised instead of the CIS.**

The policy intention of the CIS is to bring forward new generation investment

The CIS is a program to accelerate new investment in renewable generation capacity and clean dispatchable capacity to support Australia's energy transition. AGL supports the objectives of the CIS and has made several submissions regarding the CIS to the Australian Government, primarily focusing on ensuring the scheme effectively supports the transition to a clean energy future while minimising costs and complexity.[1]

AGL has previously highlighted concerns about the potential for complex participation rules to hinder participation within the CIS. In the case of aggregated resources, these complexities may be particularly acute, resulting in barriers to access funding and impacts that may significantly reduce the shared value of investments to both customers and aggregators.

The design of the CIS is targeted towards large-scale resources

The CIS was designed to derisk investment in new renewable and clean dispatchable generation and has several features that are specifically targeted to address the needs of investors in new large-scale capacity.

CIS funding supports are structured in a way so that they encourage participation in the market to maximise asset revenues and minimise the level of risk exposure for the federal government. For this reason, CIS projects are required to be structured through a special purpose vehicle (SPV), to create a ring-fenced legal and financial entity dedicated to a single project. The CIS was also designed to ensure that projects support a broad range of merit criteria that are considered in the tender process. The CIS is set to conclude in 2027.

---

[1] See, for example, AGL's submission on the proposed implementation of the CIS available here.

Accordingly, and for the reasons set out below, the structure of the CIS is not a good fit for driving investment in aggregated resources (especially aggregated CER), which are very different to grid-scale generation projects. However, there are several other existing frameworks that should be leveraged to bring forward investment and encourage participation of the types of aggregated resources considered in this consultation, which we also elaborate on in this submission.

Challenges with applying the CIS framework to aggregated resources

Applying the CIS framework to the pool of potential aggregated resources may be very challenging. Although there are specific challenges across different resources, there are a number of broad challenges, including:

- It would be difficult for most types of aggregated resources (particularly residential VPPs) to participate in the CIS because most VPPs in Australia operate as aggregations of customer-owned assets, and the CIS has not been structured to unlock investment and maximise value from assets that are owned by third parties, especially residential customers.

- Aggregated resources are funded and financed differently to large infrastructure investments, often utilising existing infrastructure or broader resources that are owned by customers or third parties, not the aggregator or operator of the asset who is receiving funding support.

- Providing funding for these resources under the CIS framework may create incentives for aggregators and operators that have the effect of seeking to maximise specific revenues instead of delivering shared customer value and broader system benefits.

- For many resources it will be difficult to identify the boundaries of what investment needs to be funded or derisked and how this flows through to a successful tender proposal.

- Aggregated resources generally maximise value through operation within a portfolio or by synergy with other customer requirements, energy management systems, or commercial objectives. Structuring an SPV to develop aggregated resources, capturing specific revenues from these resources, and requiring specific operation of resources may be complex and onerous on counterparties (which could include customers who own these resources). It may also diminish the value to customers that these resources have when operated as part of an integrated commercial approach.

- Performance targets for aggregated resources may require significant headroom, or operations that affect the ability of these resources to work flexibly and maximise value for customers. For example, aggregated resources that are being support by a clean dispatchable CISA would need to meet performance criteria that may be onerous for the type of resources being considered – conditions such as having at least 90% availability and a minimum level of available dispatchable capacity at all times may be severely limiting factors.

- The requirement for dispatchable CISAs to meet an effective 4-hour duration may result in operation of assets that is not maximising value for customers.

- The duration of a CISA (i.e., a 15-year support period, which aligns with typical project finance debt for large infrastructure projects) is unlikely to be a tenor that is either required or desirable for customers and aggregators/operators to support investment in new resources. CISAs may present a barrier to competition where customers are seeking to switch service providers but have signed into long-term agreements.

- At this stage, the CIS finishes in 2027. Longer term and enduring approaches are preferable to scale utilisation of aggregated resources.

More preferable options to incentivise the uptake and participation of aggregated resources

It is possible that there is a small pool of aggregated resources that would be able to access CIS funding by meeting the relevant criteria and operating without any detriment to customers, or that CIS criteria could be adjusted to accommodate different types of resources. However, this pool of resources could be better incentivised by other existing and more targeted approaches.

On this basis we do not consider that there is merit in progressing this proposal.

Instead, the federal government should focus on delivering more preferable options available to support the uptake and participation of aggregated resources in the NEM that are not as onerous and complex as the CIS framework and provide a more direct incentive to maximise the customer and portfolio value of different resources.

The focus of the Office of the CIS should be to continue to deliver the expanded CIS target with the existing pool of eligible resources, and the uptake and participation of other resources should be facilitated through other reform programs and funding. For example:

1. For small 'dispatchable' resources, such as household batteries, the federal government's Cheaper Home Batteries program is already providing a strong incentive to install batteries that must be capable of operating within a VPP. Direct funding and supportive policies should continue to facilitate the uptake of Virtual Power Plants (VPP) leveraging these resources, with supports aimed at maximising value from their asset to customers and to the broader grid.

2. For other small flexible loads or price responsive resources at the distribution level (e.g. households and businesses), network tariff reform and the development of new innovative products will provide the best incentives to participate in the market and respond to price periods by shifting loads in a coordinated way that supports customer needs and delivers innovation in the way resources are utilised. Continued effort should be directed to encouraging the uptake of retail products that support load-shifting, including through tariff reform but also energy efficiency and productivity schemes and demand response incentives.

3. For commercial and industrial sites, programs and funding supports to encourage the uptake of integrated energy management supports, including integrated solutions to reduce energy consumption and improve energy management, including on-site generation and storage where required.

4. For a broad range of other aggregated resources considered in this consultation, the recent integrating price-responsive resources (IPRR) rule change provides an immediate framework for nominating voluntary scheduled resources (VSR) that can bid into energy and ancillary services market to earn revenue. At present, there is also an additional incentive pool to encourage more resources to take up this initiative, with AEMO conducting tenders to pay participants to enter dispatch mode in the first five years. Utilisation of this model for these types of resources was recently strongly endorsed by the independent expert panel considering wholesale market settings in the NEM (Nelson Review).

Other funding approaches are likely to deliver greater benefits

Although we support the policy intention of the CIS, and consideration of inclusion of the broadest possible pool of resources to contribute to CIS objectives, it is equally important that the policy design has a clear focus on ensuring that consumers benefit and can access competitive supply contracts, and in the case of aggregated resources, continue to access full value from their investments and assets.

In the context of the above challenges and existing more preferable options to support uptake, we do not see the need for aggregated resources to be included in the CIS. Additionally, there is the risk of creating poor customer outcomes as a result of the CIS framework having different incentives for participants.

Should you have any questions in relation to this submission, please contact Aleks Smits (Senior Manager Policy) on 03 8633 7146.

Yours sincerely,

Ralph Griffiths

GM Policy and Market Regulation

AGL Energy

About AGL

Proudly Australian since 1837, AGL delivers around 4.5 million gas, electricity, and telecommunications services to our residential, small and large business, and wholesale customers across Australia. AGL operates the largest electricity generation portfolio in Australia of any ASX-listed company, with a total operated generation capacity of almost 8000 MW across Australia. AGL is Australia's largest privately-owned hydro power station operator and operates the largest portfolio of renewables and storage assets of any ASX listed company. Since 2006, AGL has invested billions of dollars in the construction and delivery of over 2 GW of renewable and firming capacity in the National Electricity Market.