



21 November 2019

Ms Kate Degen
Senior Advisor
Australian Energy Market Commission
PO Box A2449
Sydney South NSW 1235

By electronic lodgement

Dear Ms Degen

National Electricity Amendment (Victorian Jurisdictional Derogation – RERT Contracting) Rule 2019 – Consultation Paper (ERC0283)

Alinta Energy welcomes the opportunity to respond to the AEMC's consultation paper on the jurisdictional rule change derogation submitted by the Victorian Government relating to the reliability and emergency reserve trader provisions of the NER.

Alinta Energy is an active investor in energy markets across Australia with an owned and contracted generation portfolio of nearly 3,000MW and in excess of 1.2 million electricity and gas customers. In addition, Alinta Energy is a significant investor in renewable energy generation and aims to expand its portfolio from near 800MW of built and contracted plant to 1,000MW by 2020.

We do not support the rule change proposed by the Victorian Government nor do we consider it an urgent rule change under section 96 of the National Electricity Law.

In Alinta Energy's view the proposed rule does not:

- Incorporate the latest information on the availability of Torrens Island A units in South Australia;
- Fully consider commitments for return to service of one unit at Mortlake Power Station and Loy Yang A made by Origin and AGL respectively;
- Provide evidence that AEMO has insufficiently contracted to support RERT requirements and the reliability standard for the summer of 2019-20;
- Promote the long term interests of Victorian electricity consumers in relation to price; and
- Support harmonisation of regulation across NEM jurisdictions or make it clear that it will result in lower prices or increased reliability for consumers.

These reasons render the need for the proposed rule unnecessary, quite apart from the precedent that jurisdictional derogations themselves may set and detract from harmonised and least-cost regulation across the NEM. Alinta Energy expands on these reasons on why the proposed rule should not be made below.

The proposed rule adds further to the complexity and uncertainty facing industry in an already crowded policy and regulatory environment, characterised by several significant

reforms and regulatory changes under consideration or ready to be implemented.

While Alinta Energy understands the concerns the proposed rule may address, we do not believe it is required at this time and may be extended as other jurisdictional derogations have been. Such derogations can deviate from the original objectives of national laws and regulation covering the energy sector.

Given forecast unserved energy for Victoria will not breach the reliability standard of 0.002% Unserved Energy in the forthcoming summer, the case for a rule change to support multi-year RERT contracting for Victorian only, cannot be supported and Alinta Energy does not believe such a rule change is consistent with the National Electricity Objective.

Finally, the role of the RERT is not to attract investment in small-scale (or any type) of generation. The primary signal for new investment in the NEM is that provided by spot market outcomes in the gross pool. The proposed rule will not enhance investor confidence in the Victorian generation market.

We would welcome further discussion with the AEMC on our response. Please contact Anders Sangkuhl on (02) 9375 0992

Yours sincerely,

A handwritten signature in blue ink, appearing to read 'G. Hamilton', is positioned above the printed name.

Graeme Hamilton
General Manager, Government and Regulatory Affairs

1. There is no evidence that the reliability standard (unserved energy) will not be met in 2019/20

Since the publication of the ESOO, AGL has been granted the right to restart two units of Torrens Island A power station (240MW) by the South Australian Government. In addition, outages at Loy Yang A and Mortlake Power Stations are expected to be rectified in December. These additions to system capacity will bring the level of USE below the reliability standard of 0.002%. Multi-year RERT contracting is likely to increase costs for electricity consumers as payments will be made to generators for availability yet it is unlikely they will dispatch over the period they are contracted.

While Alinta Energy acknowledges forecast USE can be volatile, USE itself is an average measure overtime and its level was recently reviewed and confirmed in the by the Reliability Panel.¹

2. The proposed rule diverges from the of harmonisation of NEM regulation

The RERT plays an important role in safeguarding the NEM against the risk of supply shortfalls at an efficient cost during times of emergency. However, the RERT was designed as a short term emergency measure and not as a permanent alternative or substitute for the normal market operation of the NEM.

The proposed rule if made could encourage jurisdictions to further engage in derogations from the NEM. While some technical and standards-related derogations have been a feature of the NEM, Alinta Energy is concerned that the making of jurisdictional derogations to address perceived short-term risks is inconsistent with the operation of the NEM and the investment signals it requires. Once made, there is nothing preventing an application to extend the derogation as set out in the proposed rule – for example, new market arrangements to supersede it may not be in place.

As a matter of principle, we do not believe this is consistent with the NEO. Ad hoc policy responses have generally hindered rather than improved the NEM's transition to a lower carbon future. Alinta Energy would encourage policy makers to take a longer-term view of market reform, the focus of which should be on optimal wholesale market design beyond 2025, currently being considered by the Energy Security Board.

3. Question 1: Assessment framework

Alinta energy agrees with the AEMC's approach to assessing the proposed rule. We note that the AEMC will have regard to the matters set out in section 89 of the NEL. The proposed rule does not appear to have relevance to these matters as it does not transfer any existing state regulation to national regulation, does not continue existing regulatory arrangements and is not aimed at exempting generating, transmission or distribution systems from technical standards for reasons of non-compliance with standards applying to the national electricity system.

4. Question 2: New information about the demand supply balance in Victoria

Alinta Energy considers that the rule proponent's reliability concerns have been overstated, as evidenced with the return to service of two units of Torrens Island A, one unit of Mortlake and one unit at Loy Yang A, we believe the underlying concern the proposed rule seeks to address is no longer or necessary in the short to medium term.

¹ AEMC (2018), Reliability Standard and Settings Review – Final Report, <https://www.aemc.gov.au/sites/default/files/2018-04/Reliability%20Panel%20Final%20Report.pdf>

5. Question 3: Implications of RERT contract periods for Victoria

Alinta Energy would emphasise the purpose of the RERT is not to secure new generating capacity and its relatively short-term nature reflects this. The primary signal for investment in new generation capacity remains the price signal provided by the gross pool. In relation to demand-side management and participation, non RERT (and non-NEM) solutions will continue to emerge through the use of information provided by smart meters, the integration of batteries and rooftop solar PV and the optimisation of new loads such as electric vehicles. Such innovation is occurring, often independently of other policy initiatives and will contribute to improved grid reliability into the future.

While additional small-scale generation units could potentially offer reserve capacity at a lower price than RERT-procured demand-side participation initiatives, there is a real risk that such generation will remain idle over its contracted three-year life and will dilute incentives for new investment in alternative sources of generation and demand side participation that the NEM was originally designed to signal. Such short-term generation capacity is likely to consist of fast-start reciprocating engines, which may appear to offer a short-term solution, will very likely result in procurement and availability costs that far exceed any benefit they may provide by actually being dispatched.

Entering into multi year term RERT contracts on the basis of long term centralised forecasting adds to the risk that a greater procurement of RERT will take place than would have otherwise been required when using forecasts over the short-term. Ultimately any excess procurement is paid for by Victorian electricity consumers.

6. Question 4: Length of derogation

If the proposed rule were to be made, alignment with the 2025 commencement date of a new NEM market design may be appropriate. It is possible however that a future Victorian Government may seek to extend the derogation at that time and Alinta Energy does not support derogations that weaken the harmonisation of regulation within the NEM.