23 June 2022

Mr Ben Hiron
Project Leader
Australian Energy Market Commission

Submitted via the AEMC Website

ERC0263 – Primary Frequency Response Incentive Arrangements – Second Directions Paper Determination

Alinta Energy welcomes the opportunity to respond to the Commission's Directions Paper on the Primary Frequency Response Incentive Arrangements (PFR) rule change request. We also appreciate the time extension to prepare our response. As an active investor in energy markets across Australia, we own and contract a generation portfolio of nearly 3,000MW and provide retail energy supply to more than 1.2 million electricity and gas customers. Further, Alinta Energy is a provider of mandatory narrow band PFR and is therefore well placed to comment on the Second Directions Paper.

Revised Incentive Arrangement

The AEMC's revised frequency performance payments process using contribution factors (CFs) to incentivise and reflect real participant impact on system performance is a step in the right direction. The modelling and analysis conducted by IES Consulting has been helpful to better understand how the framework could operate.

On this basis, Alinta Energy is generally supportive of the revised Frequency Performance Payments framework, which we consider addresses a number of the immediate concerns raised by stakeholders, including simplification of the design. We agree that in the absence of a more appropriate price signal, using the regulation FCAS price to quantify potential PFR market value is best. We are also supportive of the application of CF's at the unit (DUID) as a means of incentivising broader operational strategies within a generation portfolio, and avoiding portfolio related distortionary impacts. However, it remains to be seen how effective this is, noting that PFR has not yet been rolled out across the majority of semi-scheduled sites.

Further, splitting out the costs of used and not used regulation services and assigning them to impacting parties or as a allocated (default) market cost appears to introduce a fairer approach to cost allocation. Ensuring AEMO clearly set out their methodology in determining default factor calculations will be critical to accurate and appropriate cost allocation across existing PFR providers. Alinta Energy encourages the AEMC to review reporting obligations to spotlight this important AEMO process (in addition to other proposed reporting obligations) as a means to provide transparency and market confidence. The AER should also actively monitor operational procedure development and implementation as a means of keeping AEMO accountable.

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Ongoing concern regarding the enduring arrangement
As we outlined in our previous submission, Alinta Energy is concerned that the Commission believes that the mandatory PFR arrangement, currently in place should not sunset. We acknowledge and understand the AEMC's rationale for its proposed decision is unpinned by AEMO and partly supported by independent consultants, and that this decision is not the focus of this Directions Paper. However, we remain of the view that a mandatory obligation on market participants in and of itself will not provide a suitable and immediate incentive to new participants (as the existing thermal fleet retires) to provide the levels of frequency required to meet future ongoing needs. We are concerned that while the revised frequency performance payments will eventually provide incentive to new semi-scheduled generation and storage, it will take time for the arrangement to demonstrate 'value' and build market confidence.

Given this concern, we suggest that rather than focusing on removing or extending the PFR sunset date, the AEMC consider a more prudent approach to balance the interests of all market stakeholders. Alinta Energy notes that the ESB's Essential System Services (ESS) work program is undertaking a range of reform measures which will tie into the overall approach for grid stablisation. Alinta Energy believes that committing to reviewing the need for ongoing mandatory PRF at the end of the ESB's ESS policy work program (i.e. commence the review in 2025) would satisfy broad market concerns.

Should you wish to discuss our views further, please contact me on 0475 943 365 or at Dan.Mascarenhas@alintaenergy.com.au.

Yours Sincerely

Dan Mascarenhas
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