17 July 2025

Australian Energy Market Commission (AEMC)

Via AEMC website: *www.aemc.gov.au*

2026 Reliability Standard and Settings Review – Issues Paper

Alinta Energy welcomes the opportunity to provide feedback on the 2026 Reliability Standard and Settings Review Issues Paper.

Alinta Energy's recommendations:

- Reducing the MPC based on speculative outcomes of the NEM Review would risk undermining its important role in supporting investment in both new and existing capacity and exacerbating the 'missing money' issue.
- We expect that maintaining an MPC at a level sufficient to support new investment will remain important following the NEM Review. Early views of the panel's proposal indicate a model that focuses on new capacity and aims to leverage rather than replace spot market price signals.
- Until clear evidence suggests otherwise, the reliability panel should continue per its established principles – examining whether the MPC is appropriate to meet the reliability target given expected market conditions, and whether it is set at a level that ultimately benefits customers.
- We consider that the current Market Floor Price remains appropriate. While we do not anticipate that a negative CPT is required, we would support further analysis on the likelihood of longer and more extreme price events given the forecast increase of intermittent generation.

Reducing the MPC based on speculative outcomes of the NEM Review would risk undermining its important role in supporting investment in both new and existing capacity and exacerbating the missing money issue.

The MPC has an important role in supporting investment in new and existing capacity, especially in a system with increasing levels of subsidised intermittent generation. Setting an MPC that is too low risks exacerbating the 'missing money' problem in the NEM. This problem is a key reason why government subsidies and not energy price signals have increasingly driven investment over the past decade,[1] and why interventions have been used

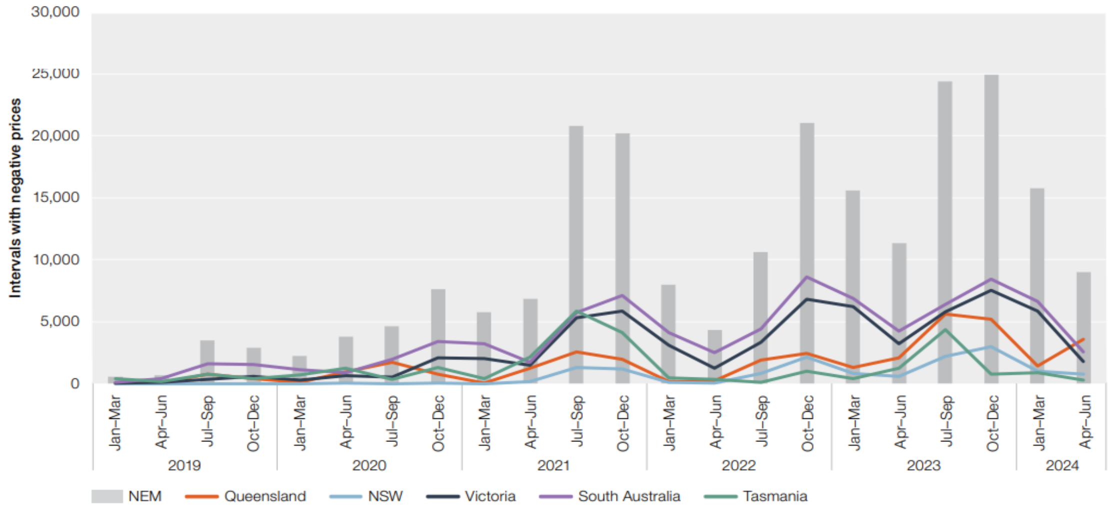
[1] The only exception was AGL's Barker Inlet power station commissioned in 2019, but this replaced an existing plant in South Australia where AGL has a majority retail market share (37% of market share in 2024)[1] that reduces its exposure to wholesale prices.

to keep existing generators operating.[2]

In competitive energy markets, facilities are incentivised to offer at their marginal cost.[3] Consequently, to recover their fixed costs (i.e. the cost of constructing or maintaining their facility that does not increase with production) facilities rely on periods where the price is set by competitors with higher marginal costs.

Per the chart below, the influx of renewable energy (continuing under the Capacity Investment Scheme) is increasing the frequency and duration of periods when the wholesale price is very low or zero. During these periods, investors in all types of facilities – including renewables – will struggle to recover their fixed costs, resulting in ‘missing money’.

Figure 2.6 Count of negative prices



Note: Count of 5-minute prices below $0 per MWh. Prices were not settled in 5-minute intervals until October 2021, although prior to this dispatch was determined on a 5-minute basis using 5-minute prices.

While increasing the MPC is not a viable solution to the missing money problem[4], setting it too low will exacerbate it – not only will there be fewer opportunities to recover fixed costs, but there will also be less revenue available in these rarer instances to make participants whole.

This concern is underscored by AEMO’s 2024 Integrated System Plan, which highlights the extension of Eraring due to reliability gaps in NSW, and the increasing cost pressures accelerating coal retirements. These developments reinforce the need for market settings that allow generators to recover short-run marginal costs and incentivize reinvestment in existing capacity.

Further, AEMO’s ISP also notes that around 15 GW of gas-powered generation will be required to complement renewables, yet future supply remains uncertain. Ensuring the MPC is sufficient to support investment in this capacity is critical to maintaining reliability as the

---

[2] Last year the NSW State Government agreed to subsidies of up to $450 million to keep Eraring power station operation for two years longer after it brought forward its retirement date. Further, AEMO’s 2024 Integrated System Plan predicts that the NEM’s 21GW coal fleet will halve by 2030 and be uneconomic 2038.

[3] If they offer a higher price, they risk not being dispatched and therefore not receiving any revenue. If they offer a lower price, they could lose money on the electricity they produce

[4] Theoretically, higher prices could counteract the increasing instances of negative prices and cover investors’ fixed costs. However, increasing the MPC would create extreme price volatility and therefore additional risks for retailers and ultimately consumers, without providing any guarantees that the missing money of generators is covered. We note that the reliability panel’s most recent review of the Reliability Standard and Settings found that a price cap of $35,000/MWh would be required to cover the cost of a new entrant 4-hour battery.

generation mix evolves.

We expect that maintaining an MPC at a level sufficient to support new investment will remain important following the NEM Review.

The Panel has outlined its intention to incorporate the NEM Review into its consideration of the 2026 reliability standard and settings. We understand the Reliability Panel is in close collaboration with the NEM Review expert panel and support the alignment of both reviews.

Early views of the NEM Review expert panel's proposal indicate a model that will:

- Leverage rather than replace market signals. For example, it would not cover projects for their first few years of operation.
- Support a longer-term view on the MPC and CPT and overall market settings with a view to provide long-term investment certainty.
- Provide underwriting support for new projects only.
- Aim to avoid pressuring incumbents towards early exits.

In this context an appropriate MPC remains important in ensuring:

- there is revenue adequacy for projects in their first years of operation (if not they will require excessive subsidies in their later years); and
- there is revenue adequacy for projects not covered, including reinvestments in existing capacity required to avoid premature exits.

Further, while the NEM Review's reforms are planned to apply from the expiry of the Capacity Investment Scheme, it remains uncertain when they will commence.

Until clear evidence suggests otherwise, the reliability panel should continue its review per its established principles.

For the reasons outlined above, we recommend that the panel progress as it has done previously. That is by examining whether the MPC is appropriate to meet the reliability target given the expected market conditions, and that any movement is ultimately in the interest of customers. If conditions are not expected to change materially since the last review, including the projected levels of intermittent generation, the costs of new entry, and the revenue adequacy for incumbents required to maintain reliability, the current MPC may remain appropriate**.**

We note that the role of the MPC is two-fold, and it must also protect against excessive price risk. The 2022 review acknowledged consumer concerns about electricity cost increases if the MPC was raised[5]. The panel also noted that high market prices "incentivise investment (and thereby increases competition) are likely to produce lower future average prices than would have otherwise been the case"[6]. Ultimately, the decision to increase in MPC and CPT was done so on the basis that customers would benefit from "enhanced future reliability outcomes"[7]. We continue to support the panel conducting cost-benefit to analysis to ensure any change in the MPC would ultimately benefit customers.

We consider that the current Market Floor Price remains appropriate.

Alinta Energy considers that the current Market Floor Price (MFP) is adequate for the next four-yearly period based on our understanding that the price floor has not been reached an

[5] Final report (1 September 2022), p 67.
[6] Final report (1 September 2022), p 67.
[7] Final report (1 September 2022), p 67.

excessive number of times in recent years; and that where it has been reached, it has not been due to the price floor being set too high such that there have been a bottleneck of generators not being able to reflect their cycling costs to remain committed. As follows, we do not expect that a change to the MFP will be needed until the existing high cycling generators experience material changes to their cycling costs.

We do not anticipate that a negative CPT is warranted based on our understanding that extreme negative prices tend to be an inadvertent result of facilities aiming to avoid constraints. However, we would not oppose analysis to assess the likelihood of more extreme and lengthy negative prices periods given the substantial amount of renewable energy forecast to be connected in the medium term which may exacerbate constraints and therefore race-to-the-floor bidding.

Thank you for your consideration of Alinta Energy's submission. If you would like to discuss this further, please get in touch with Isidora Stefanovic at isidora.stefanovic@alintaenergy.com.au.

Yours sincerely,

Oscar Carlberg

Regulatory Affairs Manager