



# 2017 Energy Sector Strategic Priorities (EMO0032)

**Alinta Energy  
Submission**

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**Submitted online:** [www.aemc.gov.au/Contact-Us/Lodge-a-submission](http://www.aemc.gov.au/Contact-Us/Lodge-a-submission)

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## 1. Introduction

Alinta Energy (**Alinta**) welcomes the opportunity to provide a submission to the Australian Energy Market Commission's (**AEMC**) *2017 Energy Sector Strategic Priorities Discussion Paper (Discussion Paper)*.

Alinta is both a generator and retailer of electricity and gas in the east and west coast energy markets. It has an owned and contracted generation portfolio of 1957MW, including 1700MW of gas-fired generation facilities, and in excess of 800,000 customers including more than 250,000 in east coast markets.

Alinta is committed to contributing to energy market development across Australia and in all regions of the National Electricity Market (**NEM**) as it pursues its forward growth strategy. Alinta considers that:

- A stable regulatory and policy environment is important to continue to encourage efficient private investment; and
- The NEM requires a “whole of system” approach in order to move to a low carbon future, which eliminates inconsistencies, moves away from political ideology and focuses on reliable, affordable and sustainable energy delivered over defined time horizons.

In this regard, Alinta is supportive of the Strategic Priorities Review and suggests the AEMC should focus on the following areas to guide and inform future work programmes:

1. A singular national clean energy policy is required to provide stability and certainty for efficient investment.
2. The increased regulatory burden being placed on industry is something the AEMC should seek to address as a matter of priority as many stakeholders are currently experiencing review fatigue.
3. Whilst there is a place for demand management mechanisms within the NEM, it is worth noting that demand management will not, in itself, solve the complex challenges the NEM is facing.
4. A reward structure that reflects the value that important grid support services (such as inertia and frequency control) provide to the system should be implemented.

These policy positions are further explored in greater detail below.

## 2. Single National Clean Energy Policy

Alinta operates across the NEM as well as the Western Australian energy market and as such is exposed to regulatory developments across all levels of government and is witness to various overlapping policy and regulations. Of late, this is especially true in the clean energy (renewables and energy saving) policy area.

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The quality and stability of regulatory decision making is vital for the electricity sector given the long asset lives and the impact of regulatory uncertainty can have on the willingness for investors to commit significant capital.

Several State Governments have established (or are in the process of establishing) their own emission reduction schemes, renewable energy and energy saving targets. Although Alinta supports providing incentives for clean energy investment, it believes this would be most efficiently and effectively achieved through a single national program. This avoids complex interactions between various programs that could create distortions, increase uncertainty and further deter investment.

In Alinta's view a co-ordinated and integrated, long-term clean energy policy, which takes account of all options, opportunities and challenges, and has a firm bipartisan commitment from both the federal and state governments, will deliver the best results for consumers in the long term.

Regardless of which specific vehicle of national clean energy policy is taken forward, Alinta is strongly of the view that a singular national energy and renewables policy should be adopted as soon as practicable.

**Australia requires a single, stable, national and bipartisan clean energy policy environment, where participants can be confident making significant and long term investment decisions.**

### **3. Growing Regulatory Burden and Review Fatigue**

The NEM is currently experiencing a significant period of change and transition. Understandably, this has led to a growing number of regulators, consumer advocacy bodies, authorities and government bodies at all levels expressing strong interest in the energy sector. With this, there is an exponentially increasing number of regulatory and government bodies undertaking (often overlapping) market reforms and reviews of some form or another.

The quality and stability of regulatory decision making is vital for the electricity sector given the long asset lives and the impact of regulatory uncertainty can have on the willingness for investors to commit significant capital.

The increased regulatory burden arising from the ever increasing number of reviews across the sector is an area that Alinta considers needs to be addressed and streamlined.

Alinta notes that implementation of a number of the Finkel<sup>1</sup> recommendations should assist in this regard – for example:

- **Recommendation 7.1:** By mid-2018, the COAG Energy Council should develop and maintain a strategic energy plan informed by the Panel's blueprint to guide the operation and evolution of the National Electricity Market.

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<sup>1</sup> *Independent Review into the Future Security of the National Electricity Market: Blueprint for the Future*, Commonwealth of Australia 2017

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- **Recommendation 7.2:** The COAG Energy Council should immediately agree to establish an Energy Security Board to have responsibility for the implementation of the blueprint and for providing whole-of-system oversight for energy security and reliability.
  - **Recommendation 7.3:** By mid-2018, COAG leaders should agree to a new Australian Energy Market Agreement that re-commits all parties to taking a nationally consistent approach to energy policy that recognises Australia's commitment in Paris to reduce emissions and governments' commitment to align efforts to meet this target with energy market frameworks.
  - **Recommendation 7.4:** By end-2017, the COAG Energy Council should commence annual public reporting to COAG leaders on its priorities for the next 12 months and progress against the strategic energy plan.
  - **Recommendation 7.5:** By mid-2018, the COAG Energy Council, in consultation with the Energy Security Board, should issue new Statements of Expectations to the Australian Energy Regulator and the Australian Energy Market Commission, and a Statement of Role to the Australian Energy Market Operator containing a comprehensive set of outcomes-based performance indicators.

To this end, Alinta supports the implementation of the above governance reforms as soon as practicable. Further to this, Alinta recommends an assessment should be undertaken to ensure whether the current regulatory framework, with the above recommendations implemented, would lead to a more streamlined approach to energy policy and regulation in the NEM. If not, further consideration should be given to how this could be achieved.

**The Australian energy sector is currently facing significant policy and regulatory challenges. As a consequence, it is essential that new policy reforms and reviews do not undermine investor certainty while acknowledging the need for clarity on a range of market developments.**

#### **4. Demand Management Programmes**

Alinta notes that the Discussion Paper explores the possibility of expanding demand side participation and demand response management options within energy markets. Whilst establishing a demand management and energy efficiency strategy is a well-intentioned policy development, the theoretical benefits of further incentives for demand management are difficult to quantify.

Alinta is of the view the current NEM design incentivises demand management programmes through existing price signals. It is worth noting that in the past decade of NEM price rises energy demand has consistently fallen and several demand management products are currently in existence with many businesses and consumers taking advantage of these. This shows the market is functioning correctly.

Alinta has long held the view that consumers themselves are best placed to make choices that best suit their needs and there is limited evidence that consumers demand for demand management products are not currently already being served appropriately by the market.

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As such, Alinta suggests the AEMC should not concentrate heavy attention in this area and where there are significant benefits available from such demand management solutions, the competitive market<sup>2</sup> will seek to identify and capture such benefits.

**Competitive markets are shown to evolve to capture innovation as retailers provide the products and benefits most valued by consumers. Over time, competitive markets will uncover the value of demand management programmes.**

## **5. Reward structures**

With the increasing amount of intermittent capacity being installed in the NEM, attention is now correctly turning towards ancillary services such as spinning reserve and system inertia, which previously were supplied to the market as a by-product of installed thermal generation.

Alinta considers that gas generation plant has the potential to play a critical transition role in this regard. This is because gas delivers flexible, reliable energy at times when renewable sources may be unavailable, in addition to this, gas fired generation is well placed to respond quickly and efficiently to system disturbances.

As gas will play an important role in supporting renewables integration and reducing carbon emissions, new investment in the short term in gas-fired generation (on top of investment in renewable generation) will be required to manage the transformation of the electricity sector at the lowest possible cost while maintaining system security.

To do this, there must be sufficient financial incentive to maintain or procure plant (i.e. gas fired generation), as well as procure and store the gas required to supply these services in the short term. Consideration must be given to creating a reward structure that reflects the value grid support services (such as inertia and frequency control) provide to the system, which is currently provided incidentally by synchronous generators connected to the network.

Alinta notes that the AEMC is currently progressing several reviews and related rule changes in this regard which directly address the system security issues caused by the transition towards greater use of non-synchronous forms of generation in the NEM.

**Alinta supports the AEMC in reviewing the system security of the market and giving that consideration to the creation of reward structures that reflect the value grid support services (such as inertia and frequency control) as a matter of priority.**

## **6. Conclusion**

Alinta believes the AEMC strategic priorities review provides a strong framework for policy development and subsequent investment in the Australian energy sector. As explored in our discussion above, the AEMC's advice should focus on the following key areas:

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<sup>2</sup> An alternative approach in this area would be to remove existing regulatory barriers that prevent customers from engaging with the market through diverse products and contractual arrangements.

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1. A singular overachieving national clean energy policy should be adopted.
  2. The increased regulatory burden being placed on industry.
  3. Demand management mechanisms should be allowed to develop naturally.
  4. Reward structures that reflect the value that important grid support services (such as inertia and frequency control) provide to the system should be further explored.

Alinta looks forward to participating in the ongoing Strategic Priorities Review process.

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Yours Sincerely



**Jacinda Papps**

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