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Submitted via email:
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Market Making Requirements in the NEM

Alinta Energy (**Alinta**) welcomes this opportunity to provide a submission to the Energy Security Board's (**ESB**) *Market Making Requirements in the NEM (the consultation paper)*.

Alinta is an active investor in energy markets across Australia with an owned and contracted generation portfolio of nearly 3,000MW, including 1,700MW of gas-fired generation facilities and 1,070MW of thermal generation facilities, and more than 1.1 million electricity and gas customers including more than 550,000 in east coast markets.

As an active second-tier electricity retailer in the South Australian electricity market, Alinta is well placed to provide informed comment on recommendation 7 as set out in the Australian Competition and Consumer Commission's (**ACCC**) Electricity Pricing Inquiry Final Report (**the report**) and further canvassed in the consultation paper.

The need for market making requirements in South Australia

Alinta understands that the ACCC has recommended that market making obligations should apply immediately and the consultation paper raises important questions of implementation and issues such as identifying vertically integrated gentailers obligated to offer liquidity into the contract market.

Alinta broadly supports the intent behind recommendation 7, which seeks to create a baseline level of market activity in South Australia and provide counterparties for participants seeking hedges. Further, Alinta acknowledges that data indicates the South Australian contract market has a lower level of liquidity than other NEM jurisdictions. However, we do not consider the introducing a Market Liquidity Obligation (**MLO**) at this stage will materially alter competition in the electricity retail market.

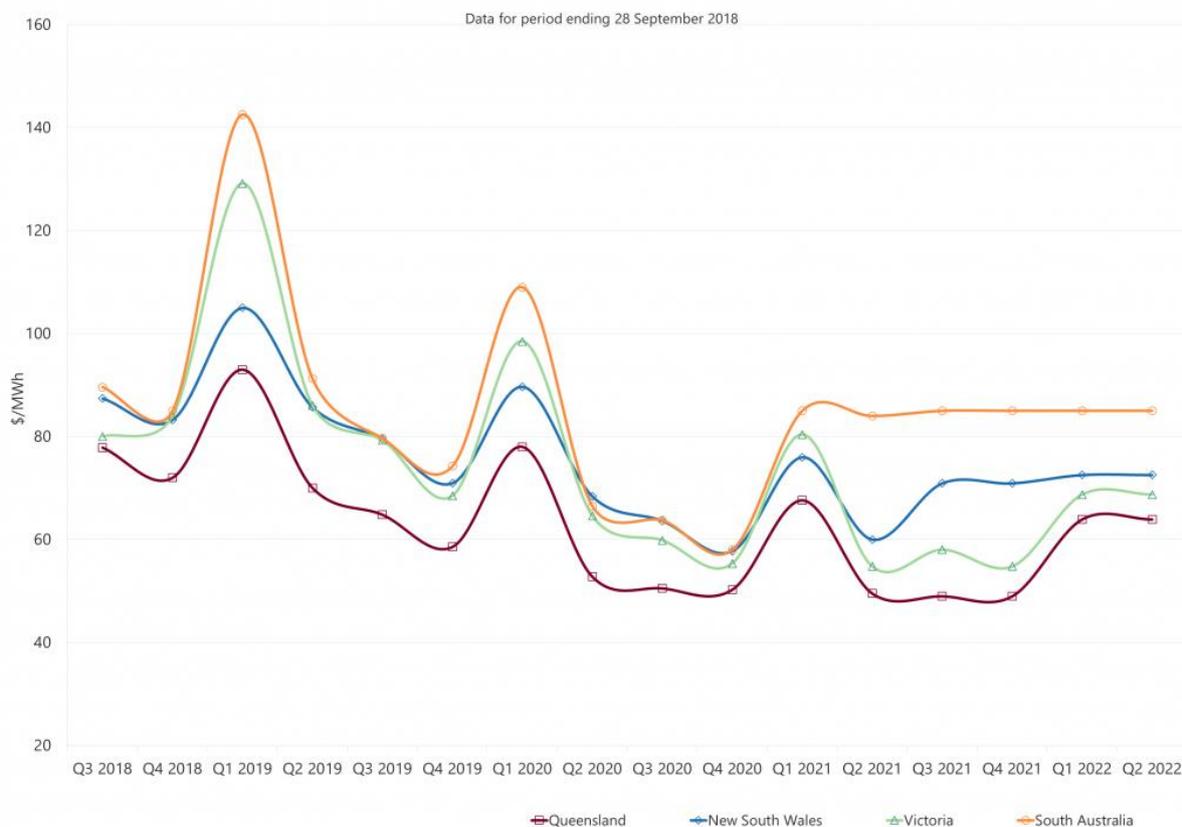
In Alinta's view, the commitment of new generation capacity in South Australia (and in neighbouring Victoria) may reduce the need for a market making mechanism in the short to medium term. For example:

- The downward pressure that committed generation projects in South Australian are likely to have upon spot and contract prices. For example, the Barker Inlet Power

Station and a number of wind and solar generation projects amount to almost 700MW¹ of new capacity (notwithstanding the staged withdrawal of Torrens Island A Power Station to 2021);

- New interconnection between New South Wales to South Australia via Riverlink and further upgrades of the Heywood Interconnector;
- The contribution of utility scale storage to synchronisation of intermittent generation with the South Australian transmission and high voltage distribution systems; and
- The impact of small scale solar and storage, energy efficiency and other demand-side response technologies continue to dampen South Australian demand.

The cumulative impact of new plant entering the NEM (including South Australia) on forward contract prices is illustrated recent data reported to the AER on quarterly base futures prices.²



This trend in contract prices suggests second-tier retailers (like Alinta) will have further opportunities to compete with the larger gentailers in South Australia and other NEM regions, improving outcomes for customers as a result, without the need to apply the MLO.

There are costs to both obligated gentailers and smaller retailers to implement the MLO. Alinta has not undertaken a detailed estimate of these costs, but they further add to those that will be incurred putting other, more critical recommendations from the report in place.

¹ Australian Energy Market Operator (2018), *2018 Electricity Statement of Opportunities*, page 71.

² Australian Energy Regulator (2018), <https://www.aer.gov.au/wholesale-markets/wholesale-statistics/quarterly-base-futures-prices>

In an investment environment where material generation capacity is due to come on line, the cost of establishing any market making mechanism may not be justified at this time.

Conclusion

Alinta considers that the recommendation to immediately apply a market making mechanism in South Australia may be premature. In our view, the impact of other measures recommended in the report and the entry of further capacity on liquidity in the NEM more generally should be considered before implementing any market making mechanism in the NEM.

Please contact Mr Anders Sangkuhl via email: anders.sangkuhl@alintaenergy.com.au or by phone 02 9375 0992 if you have any queries in relation to this submission.

Yours sincerely,



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