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Energy Security Board  
COAG Energy Council Secretariat  
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Submitted via email: [info@esb.org.au](mailto:info@esb.org.au)

### Post 2025 Market Design

Alinta Energy welcomes the opportunity to provide a response to the Energy Security Board's Post 2025 Market Design Issues Paper.

We are an active investor in energy markets across Australia with an owned and contracted generation portfolio of over 3,100MW, including 1,700MW of gas-fired generation facilities, 1,100MW of thermal generation facilities and a firm commitment to build or contract 1,500MW of renewable generation by 2020. We have in excess of 1.2 million electricity and gas customers nationwide.

Alinta Energy shares COAG's vision for an affordable and reliable energy supply, which we believe can be delivered through three key reform areas:

- 1. End short-term incrementalism that undermines investment**
- 2. Reform the NEM investment signals**
- 3. Promote an investment framework that values Security and Reliability for new and existing plant**

#### End short-term incrementalism that undermines investment

Attracting private sector investment in the NEM requires a clear market design that is subject to predictable changes. Fundamentally, it must be recognised that investments made in the energy industry are made with a 25-year time horizon. Continued tampering with a market's core design creates significant investment uncertainty that undermines current and future investment. Policy makers and Regulators should be purposeful in progressing only those reforms that are consistent with a co-ordinated market design.

Alinta Energy recommends that:

- No incremental rule change proposals that tamper with the existing market design outside a co-ordinated approach should be progressed at this time.
- State-based subsidies which act to incentivise renewable investment outside of the energy only market should be ceased immediately. Existing market interventions that

act to pick technology winners are distorting outcomes for participants and contributing to higher retail energy costs for consumers. Alinta Energy also recommends a review how resulting oversupply of non-synchronous capacity should be managed.

- AEMO should move towards a full industry ownership governance model in order to enhance responsiveness and transparency, but most importantly to focus upon the necessary reforms to deliver a co-ordinated market design independent from secondary objectives which are not market imperatives.

### Reform the Core NEM Investment Signals

Regardless of what energy market model is progressed under the Post 2025 reform process, Alinta Energy believes it is vital to ensure sufficient incentives exist for generation investment. New entrant marginal peaking generation must be adequately profitable while only running during a limited amount of trading intervals a year, reflecting the fact that peaking generators are the last to be dispatched.

The existing Market Price Cap (MPC) plays an important role in balancing competing objectives by ensuring that adequate generation infrastructure exists to meet the reliability standard. An incorrectly set MPC has the effect of undermining investment incentives or delivering an inefficient mix between generation and transmission.

At present, there is a large discrepancy between the value of the MPC (\$14,700/MWh) and the Value of Customer Reliability (VCR) (\$33,460/MWh). Having two divergent values undervalues investment in generation in favour of transmission. This is likely to be inefficient and may explain why no new merchant peaking plant has been built in the NEM in the past decade without significant Government support.

Closer alignment of the VCR and MPC may be needed to ensure sufficient incentives exist for marginal generation to be built, while satisfying expectations of reliability standards at least cost. Directly applying the VCR as the MPC should be investigated.

In addition, the appropriateness of the Market Floor Price (MFP) (-1000/MWh) should be considered. At market start the NEM was dominated by coal-fired generation and the purpose of the MFP was to provide a turn-off signal for physical plant, which occurred relatively infrequently. Today, the NEM is facing an influx of non-synchronous wind and solar generation which is frequently causing the MFP to trigger multiple times a day for often long periods.

This requires close consideration to prevent the risk of loss of revenue that may occur for dispatchable generation which may not have the technical feasibility to turn off in short periods of time, thus avoiding the greater risk of further undermining existing dispatchable investment in the NEM.

### **Promote Investment Framework that Values Security and Reliability for new and existing plant**

At present, ageing generators are retiring from the NEM, but are not being replaced by comparable dispatchable capacity. If new dispatchable capacity is not brought forward soon, the reliability of the NEM will be compromised. Alinta Energy believes that new markets which value dispatchability, reliability and security, for existing and new plant, are required to give the electricity sector confidence to invest in the NEM.

Creating new markets for these services to be acquired would:

- Allow the service to be valued, thereby providing a price signal to new investment; and
- Provide for flexibility in the procurement of volumes, dead band settings, regional distributions, and interaction with the ancillary market, for example, which are not currently possible under the existing practise of relying on AEMO market interventions for system security (and which are being used with increasing frequency).

### **Commitment to Reform Process**

At Alinta, we are determined to make energy more affordable and reliable and we look forward to doing so by positively contributing to the ESB's Post 2025 Market Design process. If you have any questions relating to the points outlined within this submission, please do not hesitate to contact my team.

Yours sincerely,



Jeff Dimery  
Managing Director and CEO