



18 February 2019

Online submission to: <https://www.erawa.com.au/consultation>

2018 Relevant level method review: Capacity valuation for intermittent generators

Alinta Energy (**Alinta**) welcomes the opportunity to provide comment to the Economic Regulation Authority's (**ERA's**) draft report for the 2018 Relevant level method review: Capacity valuation for intermittent generators, published 21 December 2018 (**draft report**).

As a leading investor in Western Australia, Alinta has a keen interest in ensuring the efficient and effective operation of the Reserve Capacity Mechanism, including the capacity valuation for intermittent generators.

The SWIS is a small, isolated electricity system. The Wholesale Electricity Market (**WEM**) comprises an energy market and a capacity mechanism to provide reliable supply of electricity to consumers. Through the capacity mechanism the Australian Energy Market Operator procures capacity to achieve a desired reliability standard. This capacity is procured from generators and demand side management providers based on their contribution to system reliability. Since this capacity is provided by many different technology types some measure of equivalence amongst the technology types is required.

For intermittent generators, such as wind or solar, the relevant level method is the measure of their ability to contribute to system reliability. Intermittent generators have added considerable capacity to the SWIS and are expected to continue adding more capacity into the future. The ERA review has focused on ensuring the relevant level method reflects the intermittent generators contribution to system reliability.

The ERA determined the current method has several shortcomings, the current method uses an expanded formula from the 2011 review that no longer is aligned with the design principles of the 2011 review and is too dependent on input parameters that, if incorrect, may over or under value intermittent capacity.

Additionally, the ERA concluded the current method doesn't associate the relationship between the output of the fleet of intermittent generators with demand. This shortcoming can also over or under value capacity provided by individual intermittent resources.

In developing its recommendations, ERA considered four options and concluded that a method based on numerical modelling (option 3) is likely to provide reasonably accurate estimates.

Alinta notes that the ERA's proposal will bring Western Australia in line with many of the other international capacity markets in how they value intermittent generators capacity.

Alinta is generally supportive of the ERA's recommendation. However, the ERA must consider how such a change would affect the WEM and the possible consequences of change.

The energy sector today finds itself in the most uncertain times on record.

At the national level the Large-scale Renewable Energy Target (**LRET**) program is nearing the scheme's target deadline. The LRET has generally been successful at attracting new renewable intermittent generation Australia wide. However, no long-term energy policy plan beyond the 2020 target exists, which leaves the energy sector uncertain about the future direction of the market.

Similarly, at the state level there has been a lack of certainty. While the WEM has had various long-term energy policy plans, for the past five years the WEM has been subject to various reviews and reforms by the state Government, the majority of which have not been implemented.

As a party that is making substantial investment commitments, Alinta considers regulatory certainty to be a critical element of the regulatory regime. It must be recognised that investors are making substantial irreversible investments and value having confidence that they can reasonably expect to earn a normal return on their investment. Given this, Alinta considers that the ERA needs to be mindful of the market uncertainty when they consider the implementation of the findings from the review.

Alinta notes that the analysis performed by the ERA focused on an 'academic' evaluation of the various options. The draft report lacks analysis on how the various options may commercially affect the current or future investors in intermittent generation.

If the commercial realities faced by generators aren't sufficient to continue to provide capacity, little will be gained by implementing an academically ideal solution that cannot be commercialised. The ideal solution needs to be academically sound, but also economically viable and not overly volatile.

Alinta considers that the ERA should consider a transitional process to prevent the potential for shocks to the broader energy market. An orderly transitional process can soften the impact of changes while allowing time for the market to adjust to the new arrangements.

In the draft report, the ERA sought feedback from stakeholders on how to calculate the capacity value for the intermittent generator fleet noting that this is expected to vary significantly year on year due to changes in weather patterns. With increased penetration of intermittent generation in the system, this variation can become substantial.

Alinta proposes that the methodology should incorporate correction for the historical and future expected changes in capacity and the historical or synthetic data used should rather focus on improving the statistical significance and accuracy of capturing the correlation between the wind, solar and load traces due to the meteorological factors and not the changes in generation mix (or demand mix).

Please contact me on [REDACTED] or [REDACTED] if you have any queries in relation to our comments.

Yours Sincerely

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Jacinda Papps

Manager, National Wholesale Regulation