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Economic Regulation Authority
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Submitted via email: publicsubmissions@erawa.com.au

2020 REVIEW OF INCENTIVES TO IMPROVE THE AVAILABILITY OF GENERATORS – DRAFT REPORT

Alinta Energy appreciates the opportunity to provide feedback on the ERA's draft report for the 2020 Review of incentives to improve the availability of generators.

Alinta Energy notes that the market rules include several direct and indirect measures to incentivise availability. Following its review, the ERA's draft decision is to:

- Retain the mechanism under clause 4.11.1(h) to assign Certified Reserve Capacity between zero and full allocation, based on outages, but:
 - reduce the thresholds associated with this clause 4.11.1(h) to zero; and
 - provide guidance to AEMO on how to use its discretion under this clause 4.11.1(h).
- Leave the refund exempt planned outage count as it currently is (a 17.5 percent annual equivalent Planned Outage rate as refund exempt Planned Outages).

The ERA's rationale for the recommended change to clause 4.11.1(h) is:

- To provide AEMO with greater flexibility; and
- Allow AEMO to consider any generators when considering whether to use its discretion to assign Certified Reserve Capacity between zero and full allocation, based on outages.

Alinta Energy does not support the draft decision to reduce the thresholds associated with clause 4.11.1(h) to zero and provide guidance to AEMO on how to use its discretion, as it:

- places undue regulatory risk on participants which leads to significant investor uncertainty; and
- does not empower AEMO to make objective decisions under this regime.

Alinta Energy strongly considers that:

- The ERA's recommendation to drop the thresholds to zero and provide greater flexibility to AEMO makes the mechanism even more subjective and difficult to apply appropriately and equitably over time;
- The mechanism needs to be amended to ensure AEMO is appropriately empowered to make objective decisions based on an appropriate outage threshold; and
- Given the importance of decisions to reduce CRC on the financial viability of generation units, any guidelines on the application of the mechanism should be enshrined in market rules and/or procedures.

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Regulatory Risk

No generating facility is reasonably capable of achieving 100 per cent availability and the Reserve Capacity Mechanism does not expect, or include a premium, to achieve that level of performance.

Further, generators need to undertake a certain amount of planned outages in order to be able to provide a reliable service when required and all generators have an expected level of forced outages set out by the original equipment manufacturer.

Given these points, it seems perverse to remove the outage rate thresholds entirely and allow AEMO the discretion to reduce a facility's certified reserve capacity based on "guidance" from the ERA that appears will exist outside the protection of the market rules and/or market procedures.

Reducing the outage threshold rates to zero and not including any objective (and known) measure by which participants can measure performance against and understand the basis on which CRC may or may not be assigned provides significant regulatory risk and uncertainty for market participants. This uncertainty would likely undermine the objective of the RCM, which is to ensure reliability by incentivising investment in capacity in the WEM. Given this, Alinta Energy strongly considers that the outage thresholds should remain in the market rules.

Efficacy and usefulness of this mechanism – ability for AEMO to make objective decisions

The mechanism under clause 4.11.1(h) already requires AEMO to apply a large amount of subjective judgement and is therefore difficult to apply appropriately and equitably over time. For example, AEMO must decide whether it considers poor historic performance cannot be rectified or indicates similarly poor performance in two years' time. Alinta suggests this reliance on subjective judgement is why 4.11.1(h) has not been used to reduce any facility's CRC to date despite a number of facilities breaching the threshold in the last few years.

Alinta Energy considers that the ERA's recommendation to drop the thresholds to zero and provide greater flexibility to AEMO makes the mechanism even more subjective and difficult to apply appropriately and equitably over time. AEMO would have to decide when to consider applying 4.11.1(h) and what level of poor performance indicates that the facility will be unable to provide its capacity in two years' time.

Additionally, without the guidance in the rules, AEMO may find it more difficult to justify its decisions under 4.11.1(h) and be more exposed to challenges from the impacted capacity providers. This would further discourage the use of 4.11.1(h).

Further, the ERA's draft report appears to have misunderstood Alinta Energy's submission to the issues paper. It notes that:

Alinta supported the addition of guidance on how AEMO applies the capacity reduction clause to add transparency and reduce the risk of subjectivity in the measurement of a generator's contribution to system reliability

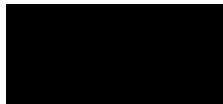
In its first submission, Alinta noted that the range of factors AEMO must consider when making a partial certification decision under clause 4.11.1(h) meant that applying the rule is largely subjective and difficult to apply appropriately and equitably over time. Alinta Energy recommended a review of these factors to ensure that AEMO is appropriately empowered to make objective decisions under this regime.

Alinta's interpretation of the ERA's draft decision is that the "guidance" it is contemplating will exist outside the protection of the market rules and/or market procedures. Given the significant importance that a decision by the AEMO to assign CRC between zero and full allocation has on the financial viability of generation units, Alinta Energy does not support "guidance" being

provided outside of the market rules or procedures, that could change year on year. This "guidance" for how the rules should operate needs to be enshrined in market rules and/or procedures.

Thank you for your consideration of Alinta Energy's submission. If you would like to discuss this in more detail, please contact me jacinda.papps@alintaenergy.com.au or on 0417 065 955.

Yours sincerely,



Jacinda Papps
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