

13 October 2025

Economic Regulation Authority
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Review of the effectiveness of the Synergy regulatory scheme - 2025

Alinta Energy appreciates the opportunity to provide feedback to inform the seventh review of the effectiveness of the Electricity Generation and Retail Corporation (EGRC) regulatory scheme.

To ensure the EGRC regulatory scheme remains effective and fit-for-purpose, Alinta Energy provides the following options for the ERA's consideration:

- 1. Standard product pricing should reflect Synergy's marginal cost of providing those products and not create substantial losses in its upstream business units that mirror results in its retail performance.**
- 2. To provide transparency, the standard product pricing methodology should be published.**
- 3. Regular independent validation of the pricing of standard products should be introduced if the pricing methodology continues to rely on forward price forecasts.**
- 4. Conduct and impact tests should be implemented to detect any underbidding and market distortion.**
- 5. Introduce a relative business unit profitability test to enable effective monitoring of internal pricing fairness.**

We consider that the buy-spread mechanism is not fit for the purpose in maintaining Standard Product pricing discipline considering that it could be as high as 35% under the current arrangements and is driven by forecast error, which has increased with market reforms. In this context, and with the likelihood of Synergy becoming a net buyer, we provide the following options to ensure the EGRC scheme applies appropriate pricing discipline.

- 1. Standard product pricing should reflect Synergy's marginal cost of providing those products and not create substantial losses in its upstream business units that mirror results in its retail performance.**

This principle is essential to ensure consistency, transparency, and fairness in the WEM. Standard product prices that fall below Synergy's marginal cost of providing these products risk distorting market signals and undermining competition. As Synergy transitions toward becoming a net buyer of electricity, it will naturally benefit from downward pressure on wholesale prices. This shift reinforces the need for pricing discipline to prevent strategic underpricing that could disadvantage other market participants and suppress investment signals. The relative performance of Synergy's business units may also serve as a potential indicator of underpricing – for example, losses in its upstream business units that mirror results in its retail business. This should be considered when reviewing the appropriateness of standard product pricing.

2. To provide transparency, the standard product pricing methodology should be published.

The current regulatory scheme should be amended to enhance pricing transparency and accountability. Synergy should be required to publicly disclose the methodology behind its standard product prices, ensuring they reflect genuine market conditions and cost structures. This includes publishing any assumptions and other models used to determine prices, to an appropriate extent. This will improve confidence in standard product pricing and allow market participants and regulators to better assess whether prices are aligned with market fundamentals.

3. Regular independent validation of the pricing of standard products should be introduced if the pricing methodology continues to rely on forward price forecasts.

To ensure the integrity and credibility of Synergy's standard product pricing, regular independent validation of its forward price forecasts should be introduced, if the pricing methodology continues to rely on forward price forecasts. This measure would provide an objective check on the assumptions and methodologies Synergy uses to set forward contract prices, helping to prevent systematic bias. Independent validation would enhance market confidence by ensuring that forecast prices reflect genuine market conditions and cost structures, rather than internal commercial incentives. It would also support the ERA's oversight role by providing a transparent and evidence-based mechanism to assess whether Synergy's pricing aligns with competitive market outcomes and the principles of cost reflectivity. In a market where price signals are increasingly complex and dynamic, independent scrutiny is essential to maintain fairness and discipline.

4. Conduct and impact tests should be implemented to detect any underbidding and market distortion.

To further strengthen the scheme, relevant conduct and impact tests should be incorporated into the framework. These tests would assess whether Synergy's purchasing and selling bids are consistent with market norms and help detect anti-competitive behavior, even when Synergy is not selling energy. Conduct tests should be adapted to flag strategic underbidding, bids significantly below cost-reflective reference levels such as average market prices or marginal firm generation costs. Impact tests should simulate market outcomes to determine whether Synergy's bidding behavior materially affects market prices or contract values.

5. Introduce a relative business unit profitability test to enable effective monitoring of internal pricing fairness.

A relative business unit profitability test should also be introduced to compare the performance of Synergy's wholesale and retail business units, ensuring that pricing strategies do not unfairly benefit one unit over another. This test would compare the financial performance of Synergy's wholesale and retail business units, providing a clear view of whether internal transfer pricing practices are resulting in disproportionate profitability in one segment over another. Such a mechanism is essential to ensure that wholesale prices are not being strategically suppressed or raised to benefit Synergy's retail operations, particularly in a market where Synergy holds structural dominance. By regularly assessing the relative margins and cost allocations between business units, the ERA can better detect and address any internal pricing distortions that may undermine competition, transparency, or the integrity of the market.

Thank you for your consideration of Alinta Energy's submission. Should you require further information or wish to discuss any aspect of our submission please do not hesitate to contact me at

