alintaenergy

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Australian Energy Market Commission
Sydney NSW 2000
By online submission

Extension of the application of the IRM to the RRO

Alinta Energy welcomes the opportunity to provide feedback to the AEMC's draft determination on the above matter.

Alinta Energy notes its previous objections[1] to the extension of the IRM[2] and does not support the extension of the application of the IRM to the RRO on the same grounds; that the extension of the IRM:

- doesn't appear to be based on any economic modelling;
- is inconsistent with the Reliability Panel's 2022 'Reliability Standard and Settings' (RSS) review findings; and
- doesn't meet the AEMC's own assessment criteria.

Responding to additional matters raised in the draft determination:

1. **Section 1.2.2 – that the extension is preferable to different jurisdictional approaches:**

   Alinta Energy agrees that different jurisdictional approaches are undesirable, however our position is that the threat of poor, or inconsistent policymaking by the jurisdictions should not drive the AEMC's decisions. It is important that the AEMC retains its independence in such matters.

2. **Section 1.5 and Appendix B – that the risk of additional costs associated with an extension are low:**

   The draft determination states that the likelihood of the extension incurring material additional costs to consumers is low, as it will only have a significant cost impact if a T-1 instrument is made. Alinta Energy notes that any presumed benefits of the application of the IRM to the RRO are equally unlikely since the realization of such benefits are inherently tied to the costs.

   In addition, the costs described in the draft determination, being:
   - procurer of Last Resort (PoLR) costs;
   - contracting costs; and
   - penalties,

   are not the only costs associated with an increased likelihood of an exercise of the RRO. For example, the draft determination acknowledges the increased cost of contracting in South Australia due to the T-1 instrument for Q1 2024; however, this exercise of the RRO also led to retailers withdrawing from participation in the market for that period and offering contracts starting after the affected period. Consumers in South Australia for that period were subject to materially increased costs not only due to retailers passing on the increased costs of contracting, but also due to the associated decrease in

[1] Alinta Energy's submission to the review of the interim reliability measure.
[2] Review of the Interim reliability measure | AEMC.

competition in the South Australian retail market. No benefit has accrued to South Australian consumers in respect of increased reliability and the costs to consumers have crystallised, notwithstanding that there is no longer any forecast reliability shortfall for the region.

3. **Section 1.5 – that the IRM is limited in scope and applies only to the RRO and the ability for AEMO to contract out of market reserves (in relation to criticism that the Commission had not considered the Reliability Panel's findings during the 2022 RSS[3]):**

   The reliability framework of the NEM is comprised of several aspects, encompassing:
   - market price settings;
   - the reliability standard;
   - the RRO; and
   - the Reliability and Emergency Reserve Trader (RERT),

   that are closely interrelated and designed to function in a coordinated manner. When the basis for determining the application of these aspects is inconsistent, the rationale for the market design is broken.

   The market price settings are designed to allow sufficient price signaling to incentivise investment to achieve the reliability standard, allowing markets to find the efficient solution. The RRO and RERT are intended to function together as a fallback option to address possible market failure. As they are not market-based solutions, they are inevitably inefficient and should be secondary to a market solution.

   In using the reliability standard to determine the market price settings, and the tighter 'IRM' to determine the application of the RRO and the RERT, the framework artificially creates 'market failure'. Rather than being a fallback option, the non-market RRO and RERT mechanisms become the expected outcome.

Alinta Energy's position on this matter is not that the reliability standard should be 0.002% or 0.0006% USE, but rather that there should only be one standard across the NEM reliability frameworks and that there is insufficient evidence to support the need for an 'interim' standard covering an eight-year period.

If you would like to discuss this further, please contact me at hugh.ridgway@alintaenergy.com.au.

Yours sincerely,

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[3] Reliability Panel, 2022 Review of the Reliability Standard and Settings, Final Report.