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Ashwin Raj, Project Lead
Australian Energy Market Commission
By online submission

Better integrating gas into the ISP

Alinta Energy welcomes the opportunity to comment on the AEMC's consultation paper and agrees with the proponent that "*[g]as, including renewable gases and hydrogen, will remain an important energy source for the electricity sector throughout the energy transformation"*. We acknowledge that there are significant challenges to the development of the circa 15GW of flexible gas-powered generation that is required under the optimal development path.

AEMO noted these challenges in its 2024 ISP, stating that "*the need for investment does not guarantee that investment will flow, and market and policy settings will need to evolve to enable the overall investments required through the transition, including for gas investments*". AEMO also noted that "*gas generation is a strategic reserve for power system reliability and security, so is not forecast to run frequently. A typical gas generator may generate just 5% of its annual potential, but will be critical when it runs … This is a change in the role of gas-powered generation from more continuous 'mid-merit' gas to a strategic, back-up role*". This type of role is novel to the NEM and is not supported by current market price settings or NEM market design.

Alinta Energy shares the view that without government support or substantial market reforms (such as a capacity mechanism), the underlying targets for development of flexible gas-powered generation needed to support the energy transition will not be met. A capacity mechanism will provide the stable revenue that is missing from the current 'energy-only' market design and needed to retain and attract the firming generation called for under the optimal development path.

In response to these issues, the proponent recommends that the ISP incorporate gas development projections as well as the following specific augmentations:

- additional analysis of future gas demand and gas pricing
- projections about the future utilisation of gas infrastructure
- information about dates of expected gas pipeline or GPG closure or conversion
- updated medium- and long-term projections of gas generator fuel costs to reflect expectations about gas market developments.

The proponent also supports AEMO producing gas development projections in the ISP, on the basis that AEMO does not currently consider whether the requisite level of investment in gas-powered generation and associated infrastructure assumed under the optimal development path are either likely or commercially feasible.

Alinta Energy notes that while the additional analysis sought by the proponent may on its face appear to be useful, such analysis:

1. would, to the extent that it is not already required under NER 5.22 in respect of all relevant technologies, exist in a vacuum and would not enable '*AEMO to more accurately assess whether alternatives to gas, such as electricity storage solutions, might be more cost-effective than gas investments*' without similar assessments of the likelihood or commercial feasibility of competing technologies; and
2. would not, to the extent that it is already encompassed by the requirements of NER 5.22, add value to a rule that is currently appropriately drafted in flexible and technologically neutral terms.

Accordingly, the AEMC should seek to ensure that any new analysis that expands the scope of the ISP (to consider issues relevant to the deliverability of the optimal development path, such as commercial feasibility, or supply chain constraints) is defined in a similarly broad and flexible manner as the current drafting of NER 5.22.

Finally, while Alinta Energy has reservations about the prospect of introducing obligations in the ISP directed at a single, specific, technology type it is our view that a more in-depth general analysis of the risks associated with the deliverability of the optimal development path could be of substantial benefit. The current manner of presentation of the ISP, which shows the relative likelihoods of future scenarios that all assume that relevant government targets will be met, is often misinterpreted by laypersons. The ISP should more clearly countenance other possible and probable outcomes that could occur without further policy changes.

Alinta Energy's response to the AEMC's specific questions follows in the attachment. If you have any questions, please contact me at hugh.ridgway@alintaenergy.com.au.

Yours sincerely

Hugh Ridgway
Wholesale Regulatory Manager (East Coast)

Attachment

1. **(a) Would requiring AEMO to include greater analysis of gas in the ISP provide benefits to electricity consumers?**
   No, unless the expansion in scope of the ISP was similarly extended to all relevant technologies to allow for an assessment of the relative costs and benefits of each technology type.

   (b) Should the rules be amended to enable AEMO to utilise gas information provided to it under other functions?
   Yes, we see no reason why AEMO should not use all available information for the purposes of producing the ISP – provided that confidential information is managed appropriately and anonymised as required.

2. **(a) Will requiring AEMO to carry out further analysis of gas in the ISP improve the ISP analysis? Why or why not?**
   No, as above for question 1(a).

   (b) Is it appropriate for AEMO to use gas information available to it under the NGR for the purpose of the ISP? Are there any risks that we should be aware of in extending the use of or publication of specific information?
   Yes it is appropriate, on the basis set out in our response to question 1(b).

3. **What are your views on the costs and benefits of requiring AEMO to undertake additional gas analysis in the ISP?**
   (a) What do you consider to be the benefits of the proposed solution? Is there anything that might erode the benefits of reduce the likelihood of the benefits being achieved?
   We refer to our comments in the main body of this submission and otherwise have no further comment.

   (b) What do you consider to be the costs of the proposed solution?
   We agree that the primary cost associated with this solution will be the costs incurred by AEMO in carrying out additional analysis as part of the ISP.

4. **What implementation considerations need to be considered?**
   (a) Do you have any concerns about sharing gas information received under the NGR for the purposes of developing the ISP? Is there sufficient clarity on what information should and should not be publicly disclosed?
   No further comment.

   (b) Are there any other implementation issues that should be considered?
   No comment.

5. **Question 5: Are there alternative ways in which further analysis can be included within the ISP instead of the proposed rule change?**
   As noted in the main body of this submission, we would support further analysis or assessment being done in respect of the feasibility of the optimal development path in general as this could be used by policy makers to identify possible reforms that may be used to support the energy transition.

   (a) Would the development of a procedure or policy enable the same outcome?
   Possibly, if there is a need for prescriptive interim measures or guidance to AEMO in relation to the ISP, a procedure or policy might be a more appropriate instrument than the NER.

   (b) What level of prescription vs principle is appropriate when setting out the requirements for the ISP?
   The nature of the forecasting process enshrined in the ISP is that it must remain flexible

in order to adapt to changes in policy and environment. It is our strong view that the rules should avoid being overly prescriptive/inflexible in defining what analysis is appropriate. Any rule that seeks to create provisions based on specific technologies will require constant revision and will likely impose unnecessary costs on the industry.