



4 May 2018

Mr Matthew Martin
Director, Wholesale Energy Markets
Public Utilities Office
Department of Treasury
Locked Bag 11
Cloisters Square WA 6850

Dear Matthew

IMPROVING RESERVE CAPACITY PRICING SIGNALS – ALTERNATIVE CAPACITY PRICING OPTIONS

Alinta Sales Pty Ltd (**Alinta**) welcomes the opportunity to provide a submission to the Public Utilities Office (**PUO**) on its consultation paper associated with the Electricity Reform Sector Initiative to improve Reserve Capacity Pricing signals.

The underlying conditions that resulted in the adoption of a capacity mechanism originally in the South West Interconnected System (**SWIS**) included its isolation, small size, lumpy demand, load shape, large market concentration and high level of State Government ownership. These characteristics have not changed since the initial decision by the State Government regarding the Wholesale Electricity Market (**WEM**) design but rather continue to mean that the SWIS is relatively unique when compared to other similar electricity markets around the world.

Alinta considers that the original drivers for the inclusion of a capacity mechanism in the WEM continue to remain relevant, and is pleased to see that this view is shared. The question that then needs to be answered is whether to maintain the current approach of using an administered pricing mechanism or to adopt an alternative approach i.e. a capacity auction or a retailer led contracting approach.

Alinta supports retaining, and refining, the current administered pricing mechanism.

Alinta considers that the implementation of a capacity auction in the WEM would:

- Not deliver any greater efficiencies to the market than a refined administered pricing regime;
- Introduce a new set of associated risks, particularly given the potential for more volatile pricing outcomes to which a number of existing generators will be exposed as a consequence of the limited incentives for bilateral contracting under the current regime;
- Require the current issues associated with Synergy's continued dominance in both the retail and wholesale market to be addressed through a disaggregation and privatisation process; and
- Require both significant design work and a reasonable transition for existing participants. In particular Alinta notes that effective auction design is not-trivial, as evidenced by frequent

change in auction design that have been required to address, mitigate, or avoid various problems in other (much larger) markets.

Alinta does not recommend the adoption of a capacity auction to solve the issues in the market given the fact that it is likely to introduce a new range of issues into the market which would require addressing and it is unclear that there are any additional benefits associated with implementing an auction that cannot be achieved through a refinement of the existing market design.

Similar to Alinta's concerns regarding the adoption of a capacity auction, the option of moving away from a centralised capacity mechanism and requiring Market Customers to procure sufficient capacity creates another set of challenges for the market. The most significant of these continues to be the issues associated with Synergy's market dominance and the complexity of developing an appropriate market design that would seek to achieve the market's objectives.

There are also a number of important features associated with maintaining a centralised approach to procurement that Alinta considers remain relevant to the WEM. These include:

- Providing a transparent backstop arrangement for the system operator to ensure reliability requirements can be met.
- Enabling an option for new entrant retailers to enter the market and procure sufficient capacity to meet its obligations without requiring bilateral contracts. This can be particularly useful when there is uncertainty as to the size of a retailer's customer base.
- Providing a more transparent and liquid capacity trading market – by removing complete reliance on bilateral arrangements and self-provision of capacity (i.e. through a gentailer).

Subsequently Alinta does not support moving away from the centralised capacity procurement via the current administered pricing mechanism.

In supporting the retention of the current administered pricing mechanism, Alinta recognises that some refinements will be necessary to ensure that this mechanism meets the following objectives of:

- Providing an efficient signal for new entry of generation;
- Providing an efficient signal for exit of older or inefficient generation;
- Providing sufficient certainty for investors; and
- Reflecting short term market conditions, where appropriate.

To that end, Alinta agrees with the PUO's suggestion that changes to the price curve will be necessary. Alinta looks forward to working with the PUO and other relevant agencies in developing an appropriate price curve that meets the above objectives.

Please contact me on Jacinda.Papps@alintaenergy.com or 08 9486 3009 if you have any queries in relation to this submission.

Yours Sincerely



Jacinda Papps
Manager, National Wholesale Regulation