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MARKET POWER MITIGATION STRATEGY – CONSULTATION PAPER

Alinta Energy appreciates the opportunity to provide a submission on the *Market Power Mitigation Strategy Consultation Paper*.

While Alinta Energy broadly supports the principles of the proposed market power mitigation strategy, it:

- Does not support the proposed additional obligations for participants captured by the gateway test, considering that they may duplicate and interfere with requirements in the 2023 WEM Rules and add a significant compliance burden for unsubstantiated benefits.

- Does not support the gateway test, considering that it may be unnecessary and cause unintended consequences. Without imposing additional obligations, ostensibly, the test would only serve to focus the regulator's investigations. This may be duplicative given the effects test. It may also be misleading given that using concentration ratios risks overlooking participants with marginal capacity that are able to materially influence price outcomes despite not meeting the arbitrary threshold.

- Recommends that further consideration be given to the proposed bidding obligation and proposed guideline, noting that, as highlighted by the ERA, the greater challenge facing the market is that it will not provide enough revenue to justify investment in new low emissions generation and storage, and that the government's planned intervention to build 2000MWh of storage and 800MW of wind may exacerbate this issue.

- Recommends that the ESS price cap permit participants to price their enablement losses, noting that preventing this may further diminish the already inadequate signals to invest in storage and add significant complexity in exchange for potentially mitigating a risk that is likely to be disproportionately low.

These points are discussed in further detail below.

Alinta Energy considers that the additional obligations for participants captured by the 'gateway test' may be unnecessary and add a material compliance burden.

This is because:

1) The paper does not clearly state what additional obligations will be applied and why they are necessary – i.e., what problems they would solve or benefits they would provide.

2) Additional obligations, including "internal governance arrangements" for "compliance monitoring" and "records keeping" will likely be duplicative noting that:

   a. The 2023 WEM Rules already effectively requires participants to self-monitor their compliance as 2.13.23 requires participants to notify the ERA of any suspected breaches and failing to self-report may cause a civil penalty.

   b. 7.4.26 requires all participants to specify the reason for every RTM submission it revises, and to "create and maintain a record of the reasons".

3) Further, it is difficult to imagine how either of these requirements could be strengthened or what benefits adding requirements for "internal governance arrangements" to support these obligations would deliver, considering:

   a. Specifying "internal arrangements" for how participants should maintain these records and self-monitor may prevent participants from devising their own fit for purpose solutions and continuously improving them. Further, Alinta Energy questions what self-monitoring requirements could reasonably be added to the existing obligations in the 2023 WEM Rules that would improve compliance outcomes.[1]

   b. The records keeping requirement in the 2023 WEM Rules is already prescriptive, requiring "details of any changed circumstances and the impact of those circumstances that gave rise to the subsequent Real-Time Market Submission." Alinta Energy questions what further information would help ERA consider whether to investigate and improve compliance outcomes.

4) Alinta Energy considers that any further obligations on providing reasons for resubmissions and record keeping would multiply an already significant compliance burden noting that 7.4.1 of Tranche 6 Exposure Draft 2 requires compliant submissions for all intervals in the week-ahead schedule and will likely necessitate many revisions.

The gateway test may be unnecessary and cause untended consequences

Alinta Energy understands that the intent of the Gateway Test is to:

1) Avoid small players with limited ability to cause material market impacts having to comply with the additional "internal governance arrangements" for "compliance monitoring" and "records keeping" on changes to offer prices.

2) Guide the regulator on which offers to monitor, to make compliance monitoring more efficient.[2]

While Alinta Energy supports this intent and notes that the proposed static concentration ratio is a response to feedback to simplify the process, it questions whether the gateway test will be necessary and beneficial.

If the proposed additional obligations are omitted for the reasons outlined above, then the

[1] For example, how being more specific about what or how to self-monitor would produce better results. Alinta Energy promotes a strong internal compliance culture which includes, among other things, self-reporting any breaches or suspected breaches that it becomes aware of. From experience applying this regime, Alinta Energy considers that a framework that incentivises self-reporting and promotes participants designing their own processes to monitor and report compliance transparently with the ERA (rather than having actions prescribed) delivers the best compliance outcomes.

[2] p.15 of the paper states "that Market Participants responsible for Facilities that are caught by the Gateway Test must fail all three stages of the Market Power Test before the ERA may commence compliance investigation and enforcement action for breach of the Offer Construction Obligation in respect of the Market Participant's relevant offers." However, in the TDOWG it was noted that a participant not captured by the gateway test could still be investigated.

gateway test would only serve to focus the regulator on which offers to monitor – being those of the larger players (>10% CR). Alinta Energy questions whether this is necessary and considers it may cause intended consequences noting that:

1) Small players with marginal peaking generators that are not captured by the gateway test may also be able to cause market impacts that pass the effects test, especially as the capacity excess is forecast to tighten and the penetration of intermittent generation increases[3]. The gateway test may cause these impacts to be overlooked.

2) Applying a gateway test may not be relevant or improve compliance monitoring efficiency noting the effects test will be the best indicator of whether an investigation should be considered, and the gateway test may be a superfluous step.

As follows, if no additional obligations are triggered by the gateway test, Alinta Energy recommends that it should be removed from the design.

The proposed broader bidding obligation improves on the current WEM Rules but should be considered with ERA's effectiveness review findings, the RCM review and whether it is fit for purpose for storage facilities and a highly renewable, and highly subsidised system.

Alinta Energy supports reforms to the bidding obligation to make it less prescriptive, noting the difficulty of applying SRMC obligations to storage facilities.

However, without a draft guideline to provide examples for how this obligation will be interpreted and how it differs from the current SRMC requirement, Alinta Energy questions whether this would be appropriate for storage facilities that rely on arbitrage and need to withhold their finite capacity so that it can be discharged during peak price periods to be economic.

Alinta Energy also questions whether this obligation will be fit for purpose in the context of ERA's findings that the current market arrangements would not provide adequate revenue to justify investment in new storage and intermittent generation projects and that ESS and energy price signals would be further reduced by new entrants.

Alinta Energy considers that government's plans to subsidise 800MW of wind and 2000MWh of storage for Synergy will exacerbate this revenue gap for the private sector.

Per its submission on the effectiveness review, Alinta Energy agrees with the ERA[4] that reforms under the RCM review may not meet this gap and that further initiatives may be required.

As follows, in the absence of a new mechanism to meet the revenue gap, an obligation which allows generators to recover their missing money (or LRMC) may be more appropriate.

As raised in its previous submission, Alinta Energy considers there should also be consideration of whether the proposed bidding obligations also protect against anticompetitively low prices. Sapere and RBP's paper stated that "decreasing offer prices below reasonable cost to decrease the market price with the effect of crowding out competitors, and then recovering losses through high prices later, or through inflated prices for other services."

Alinta Energy considers that in industries with substantial government ownership, ensuring that government-owned entities will operate in a commercial manner tends to be a greater concern than market power leading to inefficiently high prices.

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[3] Alinta Energy notes that AEMO's 2022 ESOO (p.8) forecasts the excess to be near zero by as soon as 2024 and become increasingly negative thereafter. Alinta Energy also notes that there is a need for capacity even sooner than these reported excesses suggest, considering the POE forecasts for 2022 and 2023 were understated, having been exceeded multiple times in early 2022.

[4] ERA Effectiveness Review p.21

Alinta Energy notes that government's planned intervention may exacerbate this issue and that Synergy's generation business has appeared to operate at consistent losses.[5]

An ESS price cap which excludes enablement losses (option 1) may not provide an appropriate signal for ESS supply in a highly renewable grid and may complicate bid formation and market operation.

Alinta Energy considers that option 1 may not provide an appropriate price signal for ESS because:

1) In a highly renewable grid, enablement losses may be significant, noting the potential for prolonged and frequent low or negative price periods. Given these potential losses, under option 1, investors may be deterred from ESS projects, perceiving that the capped price would not allow them to recover their costs, and that they would potentially need to rely on administered price adjustments to be made whole.

2) Investors may also perceive a disadvantage to providing ESS noting that ESS providers may be required to offer ESS at the cap (under 7.4.1) when this does not cover the opportunity cost of providing energy (e.g. during high energy price periods). In this situation an ESS provider may be dispatched lower so that they can be enabled, and receive less revenue compared to what energy-only participants would be able to receive, having no obligations to offer ESS. These situations may also cause tiebreaks to occur at the cap.

Alinta Energy considers that option 1 may complicate bid formation and market operation because:

1) Participants may need to build two pricing models: one that prices enablement losses, and one that excludes them (for where enablement losses would result in above-cap offers) and seeks to regain the difference from energy market offers.

2) Participants would need to reconcile, validate and pass through additional and unfamiliar costs with complex calculations.

Alinta Energy considers that option 2 would avoid these potential price signal and complexity issues.

While Alinta Energy understands that the intent of option 1 is avoid prices being higher than necessary where participants over-forecast their enablement losses and opportunity costs, it considers that this risk may be disproportionately small compared to the added complexity and potential price signal issues of option 1 considering that:

1) Reduced gate closure should reduce the risk of participants over-forecasting their enablement losses.

2) ESS markets have limited requirments, increasing the pressure for participants to competitively price any potential enablement losses and potential costs.

3) If EPWA decides to retain the SESSM, there are already onerous consequences and controls[6]

[5] Since FY2018, Synergy's generation business has made a loss of at least $200 million, and an average loss of ~$330m.

[6] Alinta Energy retains the view expressed in its previous submission that the SESSM should be removed considering that:

a) Previous experience shows that determining efficient ESS prices risks significantly undervaluing these services.
b) The broad threat of intervention may undermine investor confidence and efficient price signals.
c) Increasing intermittent generation is rebalancing the value of ESS and energy. Intervention may inhibit this rebalancing and cause the market fail to signal the investment required – the intent of the ETS.

for where ERA perceives prices reaching inefficient levels.

4) As highlighted by ERA's effectiveness review, the greater risk forecast is that ESS prices will be too low to sustain investment. Alinta Energy considers that the Government's plan to subsidise Synergy investing in ~2000MWh of storage may exacerbate this issue.

Thank you for your consideration of Alinta Energy's submission. If you would like to discuss further, please contact me at oscar.carlberg@alintaenergy.com.au or on 0409 501 570.

Yours sincerely

Oscar Carlberg
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d) Having both a SESSM price trigger and price limit is duplicative.