13 February 2023

Energy Policy WA

Submitted via: energymarkets@dmirs.wa.gov.au

Cost Allocation Review Consultation Paper

Alinta Energy appreciates the opportunity to provide feedback on the cost allocation review consultation paper.

Alinta Energy broadly supports the proposals 1,3,4,5,6 and 7. However, per our feedback below, we caution that the WEM deviation and NEM causer pays methods may not be fit for purpose, and that their implementation may not be the best allocation of the sector's limited resources in the context of more critical issues, including the need to incentivise substantial investment in the generation and transmission capacity required to meet net zero targets and maintain reliability at least cost.

Proposal 2

We support the proposed reforms to the regulation cost recovery method being subject to a cost-benefit analysis as we are broadly concerned that this method may:

- Impose additional costs on renewable generation, exacerbating the current revenue inadequacy issue identified in the ERA's most recent WEM Effectiveness Review, which risks discouraging the investment the SWIS urgently requires to maintain reliability.

- Create inequity between small- and large-scale intermittent generation, noting the potential difficulty in attributing causality and that PV customers causing much of the need for regulation services would not be exposed to the costs regardless of the reforms.

- Not deliver substantial benefits, noting that savings are dependent on how generators respond to the new cost framework.

As an alternative to the WEM deviation method, we propose that the current NEM forecasting method be considered, under which AEMO is responsible for the central forecasting of intermittent generation and generators have the option of providing forecasts. We consider that this may improve the accuracy of forecasts (and minimise the regulation requirement) without imposing additional costs on renewable generators. It may also improve consistency, noting that even when exposed to costs, market participants may not improve their forecasting, especially if their contracts allow them to pass through these costs. Further, centralised forecasting may be more efficient as it could avoid duplication across market participants and leverage economies of scale.

Finally, we do not support a mandatory requirement in 2027 for a review of the method and consideration of the forthcoming NEM causer-pays method. We consider that this would strand investment in any interim method, duplicate implementation costs and divert the sector's

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limited resources from pressing issues, including the need to incentivise substantial investment in the generation and transmission capacity that the SWIS requires to meet net zero targets and maintain reliability[1] at least cost.

The NEM method also appears to require significant work to implement, having a lead-time of almost two years.[2] We suggest that EPWA instead reserve the right to initiate a review of the method at its discretion and subject to other regulatory issues at the time.

Thank you for your consideration of our 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
Wholesale Regulation Manager

[1] We note that AEMO's recent NCESS tender forecast a shortfall of up to 830MW by 2024, which did not appear to include the coal retirements planned for later in the decase.
[2] AEMC's final determination planned an implementation date of June 2025.