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Department of Energy and Economic Diversification (DEED)

Via DEED email: energymarkets@deed.wa.gov.au

Capability Class 2 Technologies Review

Alinta Energy welcomes the opportunity to provide feedback on the Capability Class 2 Technologies Review consultation paper. We make the following recommendations for EPWA's consideration.

Proposal 1: Amend ESR Reserve Capacity Testing performance measurement rules

Alinta Energy supports the proposed amendment to reform the ESR Reserve Capacity Testing performance measurement rules.

We consider that the proposal better aligns the Reserve Capacity Test with how ESRs physically operate as well as how they are accredited within the Reserve Capacity Mechanism (RCM). Measuring total energy delivered across the testing period provides a more representative assessment of performance and reduces the need for ESRs to be oversized solely to satisfy a testing requirement.

We also consider that ESRs should be permitted to discharge their full capacity over a shorter duration than their ESROD within the ESROI, provided they deliver the required energy outcome. This would enable ESRs to demonstrate compliance through observation under relatively normal market conditions while avoiding the more disruptive market impacts associated with requiring sustained generation at the RCOQ level for the full ESROD.

Proposal 2: Amend DSP availability durations

Alinta Energy notes that the WEM has undergone substantial reform over recent years (including an especially large amount focused on DSP) and much of this reform has experienced extended implementation timeframes and implementation costs that have exceeded initial expectations. These reforms have also contributed to significant increases in market fees and impose material opportunity costs by diverting specialist resources away from other operational, compliance and investment activities. Finally concurrent reforms that relate to parts of the rules already pending changes make it especially difficult for participants to navigate and understand their regulatory environment. In this context, we consider that any further market reform should be subject to a high threshold of demonstrated benefit and should proceed only where there is clear evidence that the expected operational, reliability or market efficiency gains outweigh the associated costs and complexity and deliver net benefits to consumers.

Alinta Energy considers the proposed DSP reforms do not meet this threshold. We consider that there is limited evidence that the existing availability arrangements will create material reliability, commercial or operational issues within the SWIS. Recent market reforms have

already introduced significant changes to the operation of DSPs and the Reserve Capacity Mechanism, and further amendments risk increasing complexity without delivering a commensurate market benefit.

Alinta Energy is also concerned that allowing participants to observe only the evening availability window at a derated Reserve Capacity Price introduces a differentiated Capacity Credit product. This reduces the equivalence of Capacity Credits as a notional megawatt of capacity and adds unnecessary complexity to the Reserve Capacity Mechanism. Further to this proposal, Alinta Energy sees no compelling justification for a morning availability window of 4:00am to 8:00am when compared to the proposed 8:00am to 12:00pm period.

Overall, Alinta Energy considers the existing DSP availability framework remains appropriate and that the proposed amendments would introduce additional regulatory complexity for limited operational or reliability benefit.

Proposal 3: Return of DSP Reserve Capacity Security if large load ceases

Alinta Energy does not support the proposed amendment to return Reserve Capacity Security where a large associated DSP load ceases operation. The proposal introduces different treatment for DSPs compared to other Capacity Credit holders, despite all capacity providers being required to commit to the availability of their certified capacity. Customers continue to contribute to Reserve Capacity costs regardless of whether a DSP-associated load subsequently ceases operation, and therefore any reduction in delivered capacity should continue to be reflected through the existing security framework.

Alinta Energy also notes that circumstances may arise where a load recommences operation, creating potential inconsistencies with the proposed approach. Further, the proposal introduces additional administrative requirements for AEMO and Market Participants while providing limited value. Overall, Alinta Energy considers the existing framework remains appropriate and that the proposed amendment would reduce consistency across capacity types without delivering a measurable market benefit.

Further to this, we are concerned that reducing the downside risk associated with load attrition may encourage less certain or more speculative DSP proposals to enter the Reserve Capacity Mechanism. This risks introducing volatility into Reserve Capacity outcomes and reducing the accuracy of price signals relied upon by other capacity providers.

Proposal 4: Introduce state-of-charge obligations to apply during Low Reserve Conditions

LOR-SOC

While we understand the intent of this proposal our, support for the proposal is contingent on the trigger criteria and methodology being clearly defined and not overly conservative. The circumstances under which a LOR-SOC condition can be declared, and the methodology used to determine the required state of charge, should be codified to provide Market Participants with certainty regarding when the framework will apply.

Alinta Energy is also concerned about how frequently the obligation may be called, how the required state of charge will be determined and how the framework will interact with existing Offer Construction obligations. If AEMO is being provided with additional mechanisms to manage state of charge, Market Participants must receive sufficient notice and transparency of trigger events. Overall, Alinta Energy supports the objective of ensuring sufficient stored

energy is available during periods of elevated reliability risk, provided the framework remains targeted, transparent and supported by a clear and informed WEM Procedure.

Offer Construction

The Offer Construction Guidelines administered by the ERA would need to address the new framework conditions and provide discretion where possible around ESROI periods, protecting Market Participants and providing a safe harbour for volumes exceeding RCOQ. Finally, the framework must also consider the role of generators and the need for injection when ESR's are directed to withdraw.

Dispatch Options

We support the progress of a framework that utilises Option 1, amending the ESM Rules to provide that, on a Trading Day when the LOR-SOC condition is in effect, AEMO must apply constraint equations to prevent ESR's from injection or withdrawal. Due to the infrequent nature of LOR events and the heightened compliance exposure for Participants bidding into the market under these conditions, the framework would provide the greatest system security by employing AEMO's existing right to direct generators. Alinta Energy make this recommendation in line with producing the best market outcomes both on an economic and system security basis.

Proposal 5: New charge shortfall refund to support SOC obligation compliance

Alinta Energy strongly opposes the introduction of an additional refund mechanism for ESR's during a declared LOR-SOC event. The proposed LOR-SOC framework already introduces a new operational obligation on Market Participants and provides AEMO with additional tools to manage system reliability. In this context, Alinta Energy is not aware of evidence demonstrating that the existing compliance and enforcement framework is insufficient to support the proposed obligation.

Alinta Energy also notes that Market Participants already face significant incentives to comply with their obligations through existing refund exposure and compliance requirements. On the types of Trading Days where an LOR-SOC condition is likely to be declared, refund liabilities are already expected to be substantial given the underlying system conditions. In this context, Alinta Energy is not aware of evidence demonstrating that existing compliance incentives are insufficient or that an additional refund mechanism is required to achieve the intended reliability outcome.

The introduction of an additional refund mechanism would increase financial exposure for ESR operators despite the existence of existing refund provisions, civil penalties and compliance obligations. This risks creating a disproportionately punitive framework, particularly where participants have acted in good faith to comply with an LOR-SOC obligation.

No Amendments Proposed:

Alinta Energy supports the Department's decision to retain foundational aspects of the Capability Class 2 regulations. Preserving existing rules in relation to the ESR derating approach, ESROI determination and Capability Class 2 NAQ prioritisation avoids unnecessary regulatory complexities. These frameworks have been operating effectively and continue to support the efficient participation of ESRs within the WEM. Alinta Energy considers the current settings remain fit-for-purpose and no changes are required to support

the proposed enhancements relating to state of charge obligations and system reliability.

Thank you for your consideration of Alinta Energy's submission. If you would like to discuss this further, please contact Jack Mitchell via jack.mitchell@alintaenergy.com.au.

Yours sincerely,

Oscar Carlberg
Regulatory Affairs Manager