19 June 2023

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Proposed deferred timetable for the 2022 and 2023 Reserve Capacity Cycles

Alinta Energy appreciates the opportunity to provide feedback on AEMO's proposal to:

1. Defer the 2022 cycle's Capacity Credit assignment date by a month from 28 June 2023 to 28 July 2023, and

2. Defer 2023 cycle's ESOO, CRC application period and assignment of Capacity Credits by approximately a month.

to allow sufficient time to ensure accuracy of the NAQ model inputs and outputs.

Alinta Energy strongly supports AEMO extending the 2022 and 2023 Reserve Capacity Cycles to ensure accuracy of the NAQ model inputs and outputs.

However, we urge AEMO to de-link the deferrals for the 2022 and 2023 Reserve Capacity Cycles:

- We recommend that the 2022 Capacity Credit assignment date is deferred by 3 months. We are concerned that 1 month would not be sufficient to ensure the accuracy of the NAQ results, given the broad range of preliminary results we understand it has produced, the complexity of NAQ model and the limit advice, and the enduring consequences of any errors.

- We maintain our recommendation that 2023 CRC application closing date is extended until February 2024 to minimise costs for customers, avoid exacerbating the substantial shortfall and reliability risks facing the SWIS, and reduce the current operational burden on market participants.

2022 Reserve Capacity Cycle – the assignment of Capacity Credits should be deferred for three months

Alinta Energy is concerned that a one-month delay to AEMO's assignment of Capacity Credits for the 2022 RCC may not be sufficient given the complexity of the NAQ model and the vital importance that its inputs and outputs are robust and don't lead to perverse outcomes to the detriment of the consumer.

Alinta Energy is concerned that investigations into the NAQ model and its outputs may identify manifest errors in the underlying rules, which could require a fast-track rule change process to resolve (something that couldn't be achieved in a one-month delay).

Further, if the NAQ inputs do not reflect realistic system constraints and limits expected in the relevant Capacity Year, AEMO's NAQ model risks artificially under-valuing capacity. This would overstate the reserve capacity supply gap, and unduly inflate the reserve capacity paid by customers for new capacity. Working with Western Power to ensure that it's limits and constraints advice is robust, reflective of expected network conditions at the time, and not overly conservative is also likely to take more than the month currently contemplated.

Finally, to provide certainty to the market and its investors, a single, longer delay now which covers all scenarios (including the potential for a fast-track rule change) would be preferable to multiple, shorter delays, and much more preferable to volatile NAQ results which would substantially impact investor sentiment.

Given this, Alinta Energy strongly recommends that AEMO extends the 2022 Reserve Capacity Cycle through to 27 October 2023 (a deferral of three months rather than the proposed one month).

We also encourage AEMO and Western Power to be transparent with its investigations into the NAQ model and its preliminary results. Given the complexity of the model and its inputs, we consider that impacted participants should be given an opportunity to scrutinise preliminary results. We note that a similar consultative approach is applied 'data-heavy' aspects of the accreditation process, including the RLM and provision of fuel supply information.

2023 Reserve Capacity Cycle – the 2023 CRC application window should be deferred until February 2024

Alinta Energy considers that the deferrals for the 2022 and 2023 Reserve Capacity Cycles are de-linked. Consistent with its previous submission, Alinta Energy maintain its recommendation that AEMO extend the 2023 CRC application window until February 2024 to:

1) **Avoid exacerbating the substantial shortfall and reliability risks facing the SWIS.** Extending the cycle is required to give participants sufficient time to respond to AEMO's step-change (300MW) correction to the supply-demand balance (and reserve capacity price), the key investment signal in the WEM. By contrast, retaining the current schedule would prevent this, at a time where the WEM requires every signal at its disposal to incentivise the capacity needed to meet the potential 830MW shortfall in 2024.[1]

2) **Minimise costs for customers.** Permitting participants an opportunity to receive Capacity Credits in lieu of SRC or NCESS contracts could substantially improve outcomes for customers considering that:

    a. Capacity Credits are a stronger incentive than SRC and NCESS contracts. As such, extending the cycle is more likely to incentivise the capacity the SWIS requires to maintain reliability and avoid extreme real-time market prices compared with SRC or NCESS tenders.

    b. Assigning Capacity Credits is likely to result in lower costs for customers compared with SRC or NCESS contracts, noting that both NCESS costs and SRC costs are simply additional costs to be recovered from customers, whereas the cost of assigning new Capacity Credits can be offset by the reserve capacity price reductions resulting from the increased supply.

3) **Support more competitive gas supply contracts.** Following recent shocks, the domestic gas supply has tightened more quickly than many had anticipated, and the outlook is increasingly uncertain, disadvantaging participants who must re-contract long-term

[1] As forecasted by AEMO's recent NCESS tender.

arrangements within the CRC application deadline. Extending the timeframe would give participants more time to negotiate, supporting more competitive terms and thereby minimising the impact of the tightening gas market on wholesale costs.

4) **Reduce investment uncertainty about the new WEM.** Extending the application window will allow investors to observe conditions in the new WEM before committing to new capacity. Until then, revenue streams are uncertain, and retaining the current schedule may delay investment decisions until the next cycle, after market start.

5) **Reduce the current operational burden on market participants.** The delay to key specifications, procedures, and guidelines (including the outage procedure and offer construction guideline) has substantially compressed the period in which market participants must complete and test key systems for WEM reform into a 3-month window (from ~May to August) that overlaps with the application window. Completing both workstreams in parallel presents material operational challenges and extending the application timeframe would reduce this pressure and consequential delivery risk.

Finally, we do not perceive any material disadvantages to extending the application window to February 2024. While we understand that some retailers have opposed extensions in the past due to the consequential delay to the publication of the reserve capacity price and implications for pricing long-term 'bundled' contracts, we consider this to be a minor issue in the context of the forecast shortfall and the impact this would have on customers if unaddressed in the current cycle. We also note that this issue is diminished by the reserve capacity price ceiling, which reduces the exposure of these contract prices to the floating reserve capacity price.

Thank you for your consideration of Alinta Energy's feedback. If you would like to discuss further, please contact Oscar Carlberg at Oscar.carlberg@alintaenergy.com.au or on 0409501570.

Yours sincerely

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