



27 May 2013

Mr John Pierce  
Chairman  
Australian Energy Market Commission  
PO Box A2449  
SYDNEY SOUTH NSW 1235

Submitted via [www.aemc.gov.au](http://www.aemc.gov.au)

Dear Mr Chairman

### **Strategic Priorities for Energy Market Development**

Alinta Energy welcomes the Australian Energy Market Commission's (AEMC) *Strategic Priorities for Energy Market Development, Discussion Paper* (the Paper) and the opportunity to provide feedback on the themes that will inform the AEMC's discussions with the Standing Council on Energy and Resources.

Alinta Energy is an active investor in the energy retail, wholesale and generation markets across Australia. Alinta Energy has around 2500 megawatts of generation capacity in Australia (and New Zealand), and a growing customer base which includes approximately 700,000 retail energy customers in Western Australia, and across the National Electricity Market.

Alinta Energy is committed to contributing to energy market development across Australia and in all regions of the National Electricity Market as it pursues its forward growth strategy.

#### The strategic priorities approach

The 2011 review encouraged consideration of energy market development moving forward and was a useful exercise in drawing input from industry, consumers and governments. Likewise, the 2013 Paper provides an opportunity for stakeholders to contribute to the AEMC's current thinking and potentially inform future work programmes.

On the contrary, the limitation of this approach is that it has the potential to become a list of issues of the day and encourage solutions where they may not ultimately be required. Additionally, a bureaucracy driven agenda may find it difficult to progress where substantial matters of policy still need to be settled.

For these reasons, it is accurate to label the issues raised by the Paper as strategic priorities as opposed to a strategic direction for the energy industry. Nevertheless, this is a suitable approach for the market and is consistent with existing governance arrangements and the AEMC's role as adviser to government.

In this regard, the Paper's grouping of current issues provides a useful context for work going forward. Alinta Energy welcomes and supports the Paper.

Market priority: market arrangements that encourage efficient investment and flexibility

Alinta Energy endorses the view that maintaining market arrangements that encourage investment and provide flexibility remains at the core of the work conducted by the AEMC and of importance to the Standing Council on Energy and Resources.

Alinta Energy is supportive of the separate roles of the Australian Energy Regulator, Australian Energy Market Operator and AEMC. Alinta Energy has at times indicated it sees benefit in separating the National Transmission Planner function from the Australian Energy Market Operator for reasons previously detailed. The Australian Energy Market Operator itself is potentially due for review, with a view to a move to greater industry ownership.

In general, the work performed by each of the abovementioned entities adds considerable value to the sector and recent reforms have worked to strengthen that work. Unfortunately, the same cannot be said as it relates to the policy setting process, in particular climate change policies, the area of primary concern for Alinta Energy in recent years.

The AEMC's Review of Energy Market Frameworks in light of Climate Change Policies (EMFCCP review) concluded that the energy market framework is generally capable of accommodating the impacts of climate change policies efficiently and reliably. Although this included some caveats.

Since the EMFCCP review, concerns about the impact of climate change policies have increased. The Renewable Energy Target, the carbon tax, and energy efficiency schemes, have presented significant challenges to the market overall and continue to negatively impact individual company financial positions (excepting companies that have been direct beneficiaries of subsidies).

The EMFCCP review included a number of important caveats to the view the market could efficiently manage climate change policies. These included removal of retail price regulation, locational signals for generators, and adjustment of the market settings including increasing the Market Price Cap. Alinta Energy notes these issues require further attention moving forward.

Additionally, the role of energy efficiency schemes, implementation of rooftop solar systems and the general decrease in demand on the back of weaker sectors within the economy was not expected at the time of the EMFCCP review. This suggests, in Alinta Energy's view, that the energy market frameworks are under a greater degree of stress at this time than was contemplated at the time of the EMFCCP review.

The increased regulatory burden is a space that the AEMC has not necessarily invested significant time in reviewing; however, it should be noted that the burdens on energy businesses continues to grow for little discernible benefit. This may be an area for the AEMC to consider developing robust advice for the Standing Council on Energy and Resources.

With a growing number of regulators expressing interest in the energy sector, on top of the energy specific regulator with actual energy market expertise, the question needs to be asked: are customers better served by the market now than in the recent past if it is significantly more difficult to enter the market or for smaller participants to expand their operations?

When regulatory burdens impede market performance it seems appropriate to suggest consideration of the impact of regulatory obligations by the AEMC.

The growing burdens on business, the financial impacts of distorting climate change policies, declining energy demand which raises questions about underutilisation of sunk energy assets and valuation of existing assets bases moving forward, the ongoing regulation of retail prices in some jurisdictions, and government ownership of assets has some participants asking if the National Electricity Market is sustainable in the medium term.

Alinta Energy suggests a move away from the current energy only market would come at great cost but cannot be dismissed in light of the ongoing pressures being placed on market frameworks and participants who would be particularly unwilling to invest private funds in long life infrastructure under current conditions.

To this end, Alinta Energy supports a thorough appraisal of current market parameters and market settings for the purpose of underpinning the stability and durability of the National Energy Market going forward and continuing to highlight, without ambiguity, the deleterious effects of a number of existing policy settings.

This extends not just to the suitability of the existing Market Price Cap in the National Electricity Market but both the inconsistency between the settings across that market and the existing gas market hubs and the mismatch between market settings and the Value of Customer Reliability which result in network solutions being valued above other solutions, whether generation, demand side or otherwise.

#### Gas priority: promoting the development of efficient gas markets

The issues of gas market development and divergence are critical issues in Australia's energy markets. There is a combination of industry led and government supported initiatives which are positively contributing to the development of gas markets. The most apparent are the development of facilitated markets and information bulletin boards to encourage supply, new entry, price discovery and trading between participants for the purpose of maximising economic welfare.

Alinta Energy notes the AEMC proposes to conduct a gas market scoping study. This is considered a prudent approach. Gas markets have continued to evolve and it is likely to be inefficient to discard existing industry practice in favour of any one preferred policy position. Future developments in gas markets are likely to be more complex, led by industry and supported by the government and the market operator, and include multiple decision and entry points for consumers and participants.

In Alinta Energy's view this is likely to mean the operation of a number of hubs, with long-term, short-term, physical and derivative trading options, and the selective use of long-term transportation contracts dependent on participant and pipeline needs.

This means that there will need to be a level of familiarity between individual hubs as it pertains to trading options and preferably market settings, but they need not be identical. By implication this extends to integration with the National Electricity Market over the medium term as participants balance positions between gas and electricity and developments in one market impact on others.

This is likely to have implications for the management of responsibilities between markets, including system security. Alinta Energy remains concerned that in the case of an emergency the absence of a single co-ordinating agent may lead to less effective outcomes. It may be appropriate for the

Australian Energy Market Operator to operate as an agent for jurisdictions where control resides with State governments.

Alinta Energy particularly notes the development of gas market derivatives, and derivatives in energy markets other than the National Electricity Market, as an area where current financial regulatory proposals may work against the long term interests of consumers. Alinta Energy encourages detailed AEMC consideration of this issue.

Alinta Energy is particularly supportive of an alignment and consolidation of prudential arrangements between existing gas markets, with netting of positions and reallocations between Short-Term Trading Market hubs and the Declared Wholesale Gas Market a logical first step. Over time this may suggest a preference to also consolidate gas and electricity market prudential arrangements.

Finally, the AEMC refers to a reduction in gas fired generation, as a proportion of total generation, as a possible determinant of market integration. It should be noted a reduction in gas fired generation may of itself be a signal that participants are balancing between markets to a greater extent and thus is a sign of greater not less integration.

#### Consumer priority: consumer participation and competitive retail markets

In recent times consumer participation has become particularly popular in regulatory and policy circles. This is rather intriguing, since consumers already engage with markets on a daily basis via the consumption decisions they make. In fact, without consumer demand for energy products there would be no markets at all.

On this basis, there is an element of caution that should be attached to catch phrases such as 'strengthening participation' that are not driven by consumer preferences but policy dictates. Such agenda can have the effect of developing solutions looking for problems.

The AEMC's own analytical processes which led to the recommendation of the introduction of a demand response mechanism in the National Electricity Market seemingly fall into this category. Alinta Energy remains particularly disappointed about the manner in which the proposal was raised, analysed and supported by the AEMC at the tail end of the wider Power of Choice review without consequence to the wider market or in acknowledgement of the pre-existing decision not to require demand-side bidding.

The AEMC's position on the demand response mechanism was not fully developed. Large scale users currently engage in the market in a variety of ways and there is often a marked difference between their stated and revealed preferences in the market. Further, the conclusions reached did not seem to appropriately consider how risk is managed by participants and the impact of the proposed free option for select participants on the wider market and risk mitigation, including hedging. Unfortunately, attempts to engage on these points were not well received.

Nevertheless, the Power of Choice review also featured a number of well considered recommendations and detailed exploration of issues which have the capacity to improve consumer's ability to make the choices which best meet their consumption preferences.

Specifically, the AEMC's view that consumers will be best served by access to a greater range of information, efficient and flexible pricing options, and increasing the ease of switching between providers is strongly endorsed by Alinta Energy. Any arrangements which limit or discourage competition or make it more difficult to switch between providers, while potentially well meaning in

isolation, are likely to work against consumers' interests in the longer term i.e. debates around door-knocking are at risk of falling into this category.

The best method for strengthening consumer participation is the abolition of retail price regulation and maximising competition in an appropriately deregulated environment free of significant distortions, including government ownership. Unfortunately, it at times seems to be the preference to pursue novel ideas over real reforms in some policy circles.

For instance, one can only conclude that a move to deregulated retail arrangements, as has been the case in Victoria and now South Australia, would be of greater benefit to individual consumers than the institution of more consumer 'representative' bodies, information campaigns and other government led initiatives. Nonetheless, much institutional effort will focus on these latter initiatives in the coming months as opposed to more critical reforms.

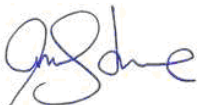
As it pertains to consumer representation, it is in some ways difficult to discern the benefit that will be delivered by creating a range of new consumer groups, whether in the form of challenge panels or advocacy bodies, over the work that already is undertaken by regulatory agencies and the plethora of ombudsman, lobby groups and government funded agencies in the name of consumers. It is somewhat unclear in whose name these existing entities are performing their duties if it is considered that a gap in representation and consideration of consumers needs still exists. An alternative view is that no demonstrable gap exists, that existing bodies and institutions are suitably representative but would benefit from greater access to technical experts within the existing governance framework, and that further funding in this area is not required.

#### Conclusion

Alinta Energy welcomes the AEMC's *Strategic Priorities for Energy Market Development, Discussion Paper* and endorses the work programme of the AEMC in this area. In this submission Alinta Energy has raised a number of additional matters that the AEMC is encouraged to consider over the coming period.

Should you have any queries in relation to these matters please do not hesitate to contact me on, telephone, 02 9372 2633 or, email, [jamie.lowe@alintaenergy.com.au](mailto:jamie.lowe@alintaenergy.com.au).

Yours sincerely



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