6 December 2013

Mr John Pierce
Australian Energy Market Commission
Sydney South NSW 1235,
PO Box A2449

Via electronic submission: EPR0032

Dear Mr Pierce,

Management of negative inter-regional settlements residues

Alinta Energy welcomes the opportunity to make a submission in response to the *Management of negative inter-regional settlements residues* draft report, released by the Australian Energy Market Commission (AEMC).

Alinta Energy is an active investor in the energy retail, wholesale and generation markets across Australia. Alinta Energy has over 2500MW of generation facilities in Australia (and New Zealand), and a growing customer base of approximately 750,000 retail energy customers in Western Australia and across the National Electricity Market (NEM).

Alinta Energy endorses the view that reform of the management of inter-regional settlement residues (IRSR) is needed in order for the procedure to remain resilient and flexible.

Several options for management exist

The draft report reviews AEMO's management of negative IRSRs, rather than reviewing the market parameters which allow such circumstances to eventuate.

Nonetheless, Alinta Energy considers it worthy to investigate conceptual improvements to the existing residues framework where benefits potentially exist. In this context, it is worth noting that it is the absence of firm generator access which in part contributes to the occurrence of disorderly bidding.

As it currently stands, the AEMC's Optional Firm Access model may address many of the outstanding issues related to disorderly bidding during congestion, as well as negative IRSRs. This would potentially mitigate the need for AEMO's management of any negative IRSR event; as the conditions contributing to these events may not necessarily occur.

AEMO's application of clamping leads to reduced flows across neighbouring regions and inhibits generator export. Given this, AEMO market interventions may inhibit least cost dispatch and thus affect commercial outcomes. This issue is of key concern to participants.

However, Alinta Energy is cognisant of the rationale for clamping being applied, as events such as those in Queensland and New South Wales in January 2013 demonstrate. On these occasions, the successful application of clamping significantly reduced the quantum of negative residue build up.

As such, Alinta Energy understands and supports reform in this area, but notes clamping is not necessarily the only avenue of reform.

Several additional options to manage negative IRSRs which could be explored include facilitating the implementation of:

- developing firmer financial products;
- more active network business management and cost sharing; and
- the building out of physical constraints when efficient to do so.

Many of these issues have been outlined in Alinta Energy's previous submissions. The remainder of this submission deals with the specific issues raised within the consultation paper.

AEMO's clamping threshold

Currently AEMO implements a clamp over a directional interconnector when negative IRSRs reach or are expected to reach the $100,000 threshold. Alinta Energy notes the AEMCs recommendation in the draft report that this threshold remains appropriate and should be retained.

It is worth noting that the sentiment of the majority of market participants including AEMO, are in favour of not reducing the existing threshold, as doing such will lead to more frequent market interventions. In this regard, Alinta Energy welcomes the AEMC's recommendation.

Furthermore, as outlined in previous submissions, it is not obvious that the distortions created by a market intervention such as clamping are more beneficial than allowing the negative IRSR to run its full course. Notably, it is difficult to conclude what sort of market response would be generated from a passive operator response.

Alinta Energy notes that options to potentially increase threshold levels to over $100,000 have not been extensively explored within the draft report, hence there is limited appreciation for the possible outcomes at a higher threshold.

Whilst supportive of the AEMC's recommendation that the existing threshold level remains at a value of $100,000, Alinta Energy is disappointed that further assessment of this issue has not taken place. Further analysis of these issues in the final report would better inform market participants and this review.

Application of the clamp

<u>Cycling</u>

Alinta Energy notes the draft report's finding that alternative approaches to manage clamping be explored.

The existing clamping cycle requires AEMO to actively monitor the accumulation of IRSRs to prevent the repeated build-up of negative IRSRs over fixed intervals, which in turn may require a recurring application of clamping. These periods of frequent applications can lead to customers in importing regions being exposed to larger negative IRSRs given the recurrent occurrence of clamping intervals being applied than may have otherwise been the case.

Whilst Alinta Energy considers frequent market interventions such as clamping to be desirable, on balance Alinta Energy recognises that conditions within the market occasionally may present physical constraints of which consumers and generators may be unable to respond to. When these

infrequent market conditions take place the application of repeated clamping or “cycling” may be appropriate in the absence of clamping being applied over longer time periods.

Alinta Energy understands several potential options of implementing improved cycling regimes exist, including:

- clamping covering 3 hour periods;
- clamping covering 24 hour periods; and
- increasing the number of tested non-negative residue intervals.

Alinta Energy believes there is significant scope for improvement in this area and are supportive of moving towards a clamping regime which covers a 3 hour period. Such a reform will reduce the magnitude of negative IRSRs build up and reduce the frequency of interventions.

However, the AEMC has considered that there is currently insufficient analysis available with which to apply a specific recommendation and that the AEMC has requested further work from AEMO assessing the appropriateness of proposed timeframes and the potential outcomes arising from longer clamping interventions.

Given this, Alinta Energy advocates that in the absence of a definitive recommendation within the existing report, a clear work plan be set out by the AEMC to ensure AEMO investigates, recommends and implements new arrangements within 6 months.

The establishment of clear timeframes will confirm to market participants that this issue is being dealt with and AEMO will report back on a known date.

To conclude: Alinta Energy supports clamping which covers a set 3 hour time period, and additionally recommends the establishment of a clearly defined work schedule for AEMO to implement such a reform within 6 months.

Increments

Alinta Energy notes that the incremental release scheme is applied asymmetrically. That is, being applied earlier when negative and being released slower when positive.

The rationale for this asymmetrical approach has not been well communicated by AEMO to participants in the past. Nonetheless, through the current rule change process AEMO has clarified that it does not intentionally preference positive IRSRs before negative IRSRs and that existing asymmetrical release structures are applied to ensure the target interconnector flows reach a steady state of zero resides.

Whilst acknowledging these issues, Alinta Energy considers additional work could be undertaken by AEMO to review the constraint equation release formula with a mind to easing legitimate technical concerns as well as to provide a balanced and symmetrical clamp application and release scheme.

To summarise: Alinta Energy supports the AEMC’s recommendation that AEMO should better communicate the existing clamping application and release scheme, and that further work could be progressed by AEMO in exploring methods of applying symmetrical release schemes which impact on regions in a balanced fashion.

Real time IRSR publication in trading interval

An area that would clearly benefit from reform is transparency. Alinta Energy notes that participants currently have no clearly identified understanding of the real time formula behind the automated process of AEMO applying or releasing IRSR clamping.

As such, Alinta Energy considers the draft report's recommendation that AEMO publishes the value of negative IRSRs within the current trading interval in real time as a positive development which appears well supported by market participants.

As outlined in the draft report, the current absence of transparency in this area limits guidance of what could be an efficient market response by participants. A well identified issue is that of clamping being displayed in pre-dispatch but not actually occurring, resulting in mixed signals being sent to generators who may have adjusted their operating patterns because of such signals.

Alinta Energy supports the real time calculation method for IRSRs being published. Doing so is a positive step which will provide transparency and will better inform market participant's behaviour.

Metered versus target megawatt values to estimate negative IRSRs

Alinta Energy is comfortable with the draft report's recommendation to continue the practise of using actual interconnector megawatt flow to approximate the negative IRSR within trading intervals.

If additional methods or data sources are accessible in the future which improve the measurement of IRSR accuracy, Alinta Energy would be similarly supportive of these methods being integrated into existing processes.

Conclusion

Alinta Energy broadly supports the draft reports recommendations and appreciates the work of AEMO and the AEMC in developing reform in this area. Notably implementing a 3 hour clamping cycle will positively contribute to the management of IRSRs and promote an efficient market response.

Alinta Energy is looking to the AEMC to provide a clear path forward from which the implementation of a "3 hour clamped cycling schedule" can be developed, desirably within 6 months.

Should you have any queries in relation to this submission, please do not hesitate to contact me on, telephone, 02 9372 2633, or Anders Sangkuhl on, telephone, 02 9375 0962.

Yours sincerely,

Jamie Lowe
Manager, Market Regulation