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NSW Department of Climate Change, Energy, the Environment and Water

Emailed to energy.consult@dpie.nsw.gov.au

Orderly Exit Management Framework

Alinta Energy provides the following comments on the Orderly Exit Management Framework (OEMF) consultation initiated by the New South Wales (NSW) Department of Climate Change, Energy, the Environment and Water.

Key points:

- **Alinta Energy strongly opposes the OEMF as it represents an unjustified intervention that would, counterproductively, impose greater risk on market participants and potential investors by increasing uncertainty around retirement of generation and corrupting any remaining market signals.**
- **Ministers are not best placed to forecast reliability or system needs shortfalls, increasing the risk of intervention for political purposes.**
- **To the extent that policy makers are of the view that further action may be required to support reliability, Alinta Energy recommends that modifications to AEMO's existing mechanisms are considered as a first priority.**
- **The OEMF will undermine other related policy measures such as emissions reduction schemes and climate-related financial disclosure reporting and may be contrary to commitments to financiers, shareholders, and the community, some of which may be legally binding or have significant financial consequences if breached.**
- **If some form of OEMF is to proceed for consideration, the Notice for Mandatory Operation as a last resort measure should, at the very least, be removed from the framework, given its potential to remove any remaining price signals to market participants.**

Alinta Energy is a significant investor in renewable energy across Australia, and as such we support an orderly transition to a renewable energy future. However, we believe that, to the extent existing market interventions and investment mechanisms are viewed as not providing the appropriate policy framework for an orderly transition, a review of these mechanisms should be undertaken, prior to considering additional frameworks that potentially conflict with other market mechanisms and government initiatives. This would include reviews of the Retailer Reliability Obligation (RRO), the Reliability and Emergency Reserve Trader framework (RERT), notice of closure requirements, and the proposed transitional services contracting framework under the 'improving security frameworks for the energy transition' rule change led by the Australian Energy Market Commission (AEMC).

Alinta Energy strongly opposes the introduction of additional mechanisms, such as the OEMF, that would impose additional regulatory burden, increase uncertainty for investors by destroying any last potential for investment decisions to be based on price signals, lead to increased costs for participants and ultimately impose higher costs on consumers, without a clearly identified gap in regulatory arrangements.

The OEMF has the potential to significantly increase uncertainty for market participants as retirement of generator announcements and schedules would be subject to even greater uncertainty. Under the OEMF, the Minister would be able to issue a Notice of Mandatory Operation, if “in the Minister’s opinion” it is needed to avoid a system needs shortfall. Such a subjective judgment would be open to non-rational decision-making resulting in intervention for political purposes and significantly increases risk for market investors. Investors in new energy projects rely upon long-term market forecasts, including generator notice of closure announcements, which, under the proposed framework, could no longer be relied upon.

The Australian Energy Market Operator (AEMO) is responsible for identifying any gaps through the RRO, the RERT and its annual publications like the Integrated System Plan (ISP) and the Electricity Statement of Opportunities (ESOO). AEMO is also responsible for ensuring the stability and security of the National Electricity Market (NEM) and has existing powers to deliver on those goals. Additionally, AEMO is likely to be granted broad powers to contract for any services required during the energy transition under the abovementioned AEMC rule change. Beyond these interventions, notice of closure requirements, prevailing price signals and industry-supported incentive mechanisms in development should be sufficient to provide the appropriate investment climate for an orderly transition.

Alinta Energy considers that AEMO is best placed to provide an accurate assessment of the supply-demand balance as an independent organisation with expertise in reliability forecasting. By contrast, Ministers will have political incentives under the OEMF and limited incentive to abstain, and any use of this power would necessarily be despite AEMO’s expert forecasts. History supports this, with the South Australia Energy Minister having exercised their ability to trigger RRO T-3s for all but one of the summer periods they were able to since implementation, despite forecasts for adequate reliability.

In summary, Alinta Energy considers that existing mechanisms (supported by the security frameworks for the energy transition in development by the AEMC) provide sufficient scope to manage an orderly transition, and that further compounding intervention would impose additional risk and uncertainty on market participants and potential investors to the detriment of a smooth transition. To the extent that further reform is deemed necessary by policy makers, it should be within the structure of existing mechanisms.

Alinta Energy strongly considers that the OEMF will undermine other related policy measures such as emissions reduction schemes and climate-related financial disclosure reporting and may be contrary to commitments to financiers, shareholders, and the community, some of which may be legally binding or have significant financial consequences if breached. If a generator is mandatorily required to continue operation at the behest of a Minister, Alinta Energy considers that any financial penalties, risks, and liabilities of doing so arising from regulatory compliance with other policy frameworks cannot be borne by the operator that has no control over the extension of life. Alinta Energy questions whether any state government will be willing to take on this risk.

The following comments are provided if, despite our view, some form of OEMF is to be considered further.

Stage three: Notice for Mandatory Operation

Alinta Energy strongly opposes stage three of the mechanism “*Notice of Mandatory Operation*,” including as a last resort.

Rejection of a voluntary agreement by a plant owner would be indisputable evidence that there is no case, whatsoever, on any basis, for extending the life of the plant. It would also be evidence that any action to do so would have a profoundly distorting impact on other market participants and their previous and proposed investment decisions. The very existence of such a measure creates additional market uncertainty and raises the risk profile of proposed investments.

Alinta Energy recommends that, if the OEMF is to be taken forward in some form for further consideration, at the very least the Notice for Mandatory Operation as a last resort measure be removed.

Risks associated with operation of a plant

Operating a thermal generator involves various risks, encompassing many factors such as the health and safety of personnel and contractors, potential machinery failures, and hazards associated with high-temperature operations. Continued operation of generation equipment depends on ongoing capital investment and detailed maintenance planning. When it is no longer economic to keep the facility open an operator will put together a detailed plan about how and when to close the plant. From this point maintenance, investment and operational decisions will be designed to only allow the plant to be safely operated until the planned closure date.

On this basis, Alinta Energy recommends that the operator be allowed to evaluate the risks linked to the continued functioning of a plant. If operational risks are identified, there should be no obligation to continue to operate the plant, irrespective of any market impact. Subjecting employees and contractors to health and safety risks or running a plant with a significant risk of failure cannot be countenanced.

As noted above, the maintenance schedule of a generator is aligned with its expected tenure of operation. Many maintenance activities have lead times of greater than seven years, from planning to completion. If mandatory operation were to be forced by the government, it could lead to significant costs (ultimately imposed on consumers) for urgent maintenance activities that may not even be feasible in many cases.

Beyond maintenance, the operator may have also made several commercial and operational decisions that could impact the ability to keep a plant operating, such as not renewing key contracts for fuel supply and transmission access or not ensuring that staff are available to operate the plant beyond a planned closure date.

The result of this is that, as a generator gets close to its planned retirement dates it is highly unlikely that it will have adequate access to fuel, staffing and the maintenance plans to operate the facility safely and reliably. This may mean that extending its operation may be either extremely expensive or practically impossible.

Transparency of the framework

Whilst acknowledging the government's plan to disclose information that is not commercially or competitively sensitive regarding the negotiated agreements, Alinta Energy recommends extending disclosure obligations to include information from the System Needs Assessment

in Stage One, and the search for alternative solutions in Stage Two. This would further improve transparency under the framework and instil greater trust.

Prescribed information required at the voluntary agreement stage

Alinta Energy does not agree with the proposal requiring an OEMF generator to provide prescribed information at Stage One of the OEMF gateway process.

The prescribed information is not necessary for a System Needs Assessment under Stage One, or the search for alternative solutions in Stage Two, to be completed, and merely imposes an onerous obligation on the plant owner with no benefit. The information is not required until the state enters a voluntary agreement negotiation with the plant owner.

Alinta Energy recommends that the two parts of Stage Two, “search for alternative solutions” and “voluntary agreement negotiation”, be separated. The subsequent stages could then be renumbered, with “voluntary agreement negotiations” the new Stage Three, or “search for alternative solutions” could be included in Stage One.

Thank you for your consideration of our submission. If you would like to discuss this further, please contact Karan Sharma at karan.sharma@alintaenergy.com.au.

Yours sincerely



Graeme Hamilton

General Manager, Government & Regulatory Affairs