Amber Holdings | ABN 52 148 012 471
trading as Alinta Energy
Level 11, 20 Bridge Street
Sydney NSW 2000 Australia
T +61 2 9372 2600 | F +61 2 9372 2610
www.alintaenergy.com

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Mr Chris Pattas
General Manager
Network Operations and Development Branch
Australian Energy Regulator

By email: AERinquiry@aer.gov.au

Dear Mr Pattas

Service Target Performance Incentive Scheme

Introduction

Alinta Energy welcomes the opportunity to make a submission in response to the Australian Energy Regulator's (AER) issues paper on the Service Target Performance Incentive Scheme (STPIS).

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 maintains over 620,000 retail energy customers in Western Australia and South Australia with a commitment to growth in the National Electricity Market.

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

The purpose of this submission is to outline our support for the AER's ongoing development of the STPIS and to identify areas we agree require enhancement or revision.

Discussion

Alinta Energy believes the objectives outlined by the AER are appropriate and supports adjustments to the scheme consistent with those objectives to maximise incentives for Transmission Network Service Providers (TNSPs). Additionally, we endorse the incentive options provided.

Alinta Energy notes that the National Electricity Rules limits the percentage of Maximum Average Revenue that can be placed at risk (in the form of an increase or decrease in revenue) to 5 percent in any regulatory year. This limits the options available to the AER in revising the STPIS to sharpen incentives.

Interestingly, as part of the Australian Energy Market Commission's Transmission Framework Review, the National Generators Forum submitted that increasing the revenue at risk to 10 percent would sharpen STPIS incentives. We note that such an option would be inconsistent with the outlined objectives and the National Electricity Rules as outlined by the AER.

In Alinta Energy's view there is merit in adjusting the revenue at risk under the STPIS. The purpose of any adjustment is to enhance the incentive for TNSPs to act in a manner which is responsive to market outcomes and to transmission network users.

The possible adjustments are the quantum of revenue at risk and the symmetry of each incentive (being the percentage at risk as a financial bonus or penalty) for the service component and the market impact component. Currently, we are aware that the revenue at risk is 1 per cent for service component and up to 2 percent upside for the market impact parameter.

Alinta Energy does not support continuation of an asymmetrical market impact component where the downside is zero. Nevertheless, having discussed this issue with TNSPs we appreciate their concern regarding financial penalties which they are unable to effectively respond to. Likewise, Alinta Energy has no firm evidence to suggest that a symmetrical approach would illicit improved performance vis-à-vis a significant financial incentive of itself.

Nevertheless, if the National Electricity Rules are to maintain the existing 5 percent limit on revenue at risk, we support a symmetrical approach up to this maximum limit allocated between the service component and the market impact component. We support a symmetrical approach in this instance as it better reflects the risk experiences of other market participants who rely upon transmission performance. We suggest +/- 2 percent for the service component and +/- 3 percent for the market impact component are likely to be appropriate.

Moving forward, we invite the AER to consider amending the 5 percent limit in the National Electricity Rules for the purpose of introducing a larger but asymmetrical incentive structure that provides more upside incentives for TNSPs.

Alinta Energy welcomes discussion around the benefits of a STPIS which is asymmetrical in the order of 10 percent upside but with 5 percent downside to balance TNSPs concerns with the principle of exposure to poor performance and strong incentives for performance improvements. Such a scheme may also reduce the need to provide limits (caps) on revenue increases that may dissuade TNSPs from not taking additional steps to improve performance but noting that given the structure of the business 5 percent downside is likely to remain appropriate.

Any extension of revenue at risk, particularly financial benefits, should be matched with an appropriate extension of obligations on TNSPs. In this regard, Alinta Energy supports the AER's consideration of near miss indicators and steps to reward TNSPs performance when it has a corresponding market benefit.

Notwithstanding the above, Alinta Energy understands there is little benefit in rewarding TNSPs for parameters where a TNSP has reached the 'performance frontier'. That said, we caution that attempts to remove incentives that seem unlikely to improve performance should not lead to unintended consequences.

The criteria around exclusions should be tightened to ensure all interested stakeholders have clarity about when an event will be excluded and to ensure TNSP performance is appropriately assessed. Alinta Energy understands that the definitional approach may be cumbersome but notes certainty, for the benefit of TNSPs and stakeholders, should guide the AER's approach to exclusions.

This principle of certainty should guide reviews of STPIS. Currently, the STPIS is regularly revised for individual TNSPs which is likely to undermine the consistency of the scheme. Alinta Energy supports the proposal for periodic reviews by the AER which covers the parameters impacting all TNSPs.

Such consistency, including all TNSPs being covered by the STPIS going forward, will improve traction with stakeholders.

If you have any queries in relation to this submission please do not hesitate to contact me on, telephone, 02 9372 2633.

Yours sincerely

Jamie Lowe

Manager, Market Regulation