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2020 ENERGY PRICE LIMITS REVIEW

Alinta Energy appreciates the opportunity to provide feedback on the *2020-21 Energy Price Limits Review – Draft Report V2*.

Alinta Energy notes that the draft report uses regression analysis of previous average maximum gas prices from the gasTrading platform to forecast the 2020-21 commodity price at ~\$3/GJ. Alinta Energy does not support this approach for three reasons:

1. Spot prices do not represent WEM generators' fuel costs

Firstly, spot prices do not reflect WEM generators' fuel costs as WEM generators are required to have a certain level of firm fuel contracts to receive Capacity Credits. Contract prices generally contain a premium over spot prices to cover the additional risk of fixing the price. Consequently, regression analysis of previous spot prices would understate the candidate facilities' fuel costs.

2. Spot prices do not incorporate major market changes that will tighten gas supply

Secondly, regression analysis of previous spot gas prices fails to incorporate the fundamental market changes expected to significantly tighten WA's gas supply. The conclusion of long-term North West Shelf JV contracts in 2020,¹ the deferral of projects which were previously expected to backfill for NWS (including Browse and Scarborough)^{2,3} and the depletion of reserves at existing gas production facilities⁴ are likely to drive substantial upward pressure on gas prices over the forecast period. Regression analysis assumes that fuel prices will follow previous trends and would not incorporate these significant changes.

3. GasTrading prices are not representative of the broader market

Thirdly, Alinta Energy considers that the gasTrading platform does not provide an accurate sample of spot gas prices. Most spot trades are conducted privately; and the gasTrading Platform tends to be used by a limited number of traders for specific purposes.

¹ See p34, [AEMO's 2016 Gas Statement of Opportunities for Western Australia](#)

² See p33, [AEMO's 2018 Gas Statement of Opportunities for Western Australia](#)

³ Forbes, ['32 Billion In Australian Oil And Gas Work Deferred Till Markets Improve'](#) (March 2020)

⁴ See p5, [AEMO's 2019 Gas Statement of Opportunities for Western Australia](#)

Proposed solution

To avoid these issues Alinta Energy strongly recommends that gasTrading spot price data is not used to forecast gas prices and determine the Maximum STEM Price. Instead, Alinta Energy recommends that AEMO uses the weighted average contract price published by DMIRS.⁵ This data will better reflect the candidate facilities' fuel costs considering:

1. These facilities are required to contract firm fuel supplies, meaning weighted average contract prices will better represent their fuel costs compared to spot prices.
2. Being longer term, contract prices may incorporate impending changes to demand and supply. Whereas spot prices do not incorporate these changes.
3. The weighted average contract price published by DMIRS is calculated based on data provided by all gas suppliers, incorporating a broader sample size compared to the gasTrading platform.

Alinta Energy notes that the use of DMIRS' weighted average contract price would also be consistent with previous regulatory processes. The ERA used this data to benchmark AEMO's gas price assumptions in its most recent ancillary services parameters determination.⁶

Additional issue – Parkeston gas transport costs

While Alinta Energy notes that the Parkeston candidate facility was not ultimately used to calculate the energy price limits as the Pinjar facility had higher costs overall; Alinta Energy considers that the spot transport costs used to forecast Parkeston's gas transport costs may be understated for two reasons:

1. There is no spot capacity remaining on the GGP, meaning the published uncovered rate would apply.⁷
2. The Parkeston Facility would also be required to pay part haul rates on the DBNGP.⁸

Thank you for your consideration of Alinta Energy's submission. If you would like to discuss this in more detail, please contact me at oscar.carlberg@alintaenergy.com.au or on 0409 501 570.

Yours sincerely,



Oscar Carlberg
Wholesale Regulation Manager

⁵ See the see the tab titled "Petroleum – Gas Prices" of the [2019 major commodities resources data](#)

⁶ See p16 [Ancillary service parameters: spinning reserve margins, load rejection reserve and system restart costs for 2020/21 – Determination](#)

⁷ Uncovered rate published [on APA's website](#).

⁸ DBNGP reference tariffs published [on the ERA's website](#)