RCP | Rule Change Panel

Wholesale Electricity Market Rule Change Proposal Submission

RC_2017_02
Implementation of 30-minute Balancing Gate Closure

Submitted by

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Submissions on Rule Change Proposals can be sent by:

Email to: support@rcpwa.com.au

Post to: Rule Change Panel
Attn: Executive Officer
C/o Economic Regulation Authority
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1. Please provide your views on the proposal, including any objections or suggested revisions.

Synergy welcomes the opportunity to provide feedback in response to the call for second round submissions: RC_2017_02 - Implementation of 30-minute Balancing Gate Closure (Draft Report).

The Rule Change Panel's (RCP) draft decision is to accept the Rule Change Proposal in a modified form, which includes:

a) Moving to a 90-minute rolling Balancing Gate Closure (BGC) for Independent Power Purchasers (IPPs); and

b) Moving to a 150-minute rolling BGC for Synergy for the Balancing Portfolio.

Synergy is appreciative of the RCP's consideration of the unreasonable BGC restrictions currently imposed on Synergy and strongly supports their direction to move the Balancing Portfolio from a block bidding arrangement to a rolling gate closure.

Although Synergy is also supportive of the reduction in BGC timeframes, there appears to be no reasonable justification for the 60-minute time differential between Synergy's and IPP's

BGC as proposed in the Draft Report. Synergy advocates that the same BGC timeframe as IPPs should be applied to Synergy and has examined the alleged issues of market power, infeasible dispatch and impacts to pricing to support this view.

Market Power:

Under section 6.2.1.4 of the Draft Report, it is noted that the existing BGC arrangements are in place for varying reasons, including for the purpose of addressing Synergy's market power by allowing IPPs to respond to Synergy's bid.

Specifically, Synergy's possession of market power is implied in the statement that the "one-hour lag in bidding between Synergy and IPPs is sufficient to reduce Synergy's ability to exercise dominance because IPPs can revise their submissions after Synergy's gate closure for the Balancing Market."

Synergy denies that it has market power as suggested in the Draft Report and contends that it is neither shown that Synergy has market power, nor that the proposed differential in BGC is an effective, proportional or appropriate mitigation of any such market power.

Moreover, the RCP had previously agreed with Synergy in the Draft Report "that the requirement for all Market Participants to offer at SRMC where the behaviour relates to Market Power", under clause 7A.2.17 of the Market Rules, "currently appears to be a sufficient arrangement to mitigate against market power abuses and result in economically efficient prices and outcomes".

Given existing Market Rule obligations under clause 7A.2.17 and section 46 of the Competition and Consumer Act 2000 which prohibits the misuse of market power, Synergy considers that the economic inefficiencies that will continue in the Balancing Market as a result of the RCP's proposal to continue to have differential Balancing Gate Closures would far outweigh any alleged market power mitigation gained.

Synergy considers the RCP should:

- conduct a cost-benefit analysis of keeping the time differentials to support the supposed need for the time differential;

- provide evidence of the incremental benefits associated with its decision to continue to include differential Balancing Gate Closures between Synergy and IPPs compared to the market power mitigation that occurs under the aforementioned mechanisms; and

- compare that incremental benefit to significant costs associated with the inefficiencies that its decision will enable to continue to permeate the Balancing Market.

Infeasible Dispatch:

Synergy disagrees with the conclusions drawn under section 6.2.1.2 of the Draft Report, which explores whether Synergy should have the same Gate Closure as IPPs.

Despite the potential market efficiency created in enabling all Market Participants to make operational decisions with the most accurate available information, the RCP reasoned "that the risk to IPP's of being caught in infeasible dispatch and having to pay refunds is greater if they do not have forewarning of what the Balancing Portfolio will do" and that it is therefore "important that IPPs are able to update their Balancing Submissions having seen the final position of the Synergy Portfolio, which should be allowed for when setting the gate closure timeframes".

Synergy notes that the removal of its re-bidding restriction will mean that Market Generators are required to price on the basis of the increased risk that they will be displaced by Synergy plant if they bid too high.

However, using the Balancing Portfolio to de-risk market bids for IPPs is inequitable for Synergy and, rather than an overall reduction of risk to the Market, merely results in the transference of risk from IPPs to Synergy who remains at greater risk of infeasible dispatch due to the 150-minute window for forecasting error. If all Market Participants are subject to the same BGC restrictions, no Market Participants will have prior knowledge of the bidding behavior of other Market Participants and the risk will be equally spread.

Synergy stresses that the risk of infeasible dispatch is borne by all Market Participants, including Synergy. It is neither an obligation under the Market Rules nor Synergy's role for the Balancing Portfolio to indemnify an IPP from infeasible dispatch.

Pricing:

The primary driver of the prices offered in Synergy's Balancing Submissions is Synergy's forecast of the expected run time of its facilities and, because Synergy is not able to take into account subsequent IPP balancing submissions, this forecast is invariably incorrect.

This issue is compounded by IPPs being able to re-bid multiple times after Synergy's gate closure to maximise volume while simultaneously shadow pricing Synergy's marginal offers so as to maximise their revenue under the balancing market while minimising their cost to operate, for instance, by generating low volumes for the same or similar revenue.

The RCP's proposal to increase the frequency in which the BMO is published will provide IPPs with additional information to enable them to shadow price Synergy, further compounding the above issue.

Removing the 60-minute differential for BGC will therefore promote competition in the Balancing Market by increasing price competition around the Market Clearing Price.

Other:

Synergy notes that economic efficiency is one of the market objectives and that an objective of the Balancing Market (clause 7A.1.3(c) of the Market Rules) is to "establish a Balancing Price which is consistent with dispatch".

However, the issue of IPPs regularly making balancing submissions to ramp up to full load at maximum ramp rates and the resultant inefficiencies this causes due to Synergy needing to displace coal fired generation with more flexible gas fired generation within the Balancing Portfolio remains prevalent.

Synergy cannot continue to bear costs associated with being dispatched, effectively out of merit within the Balancing Portfolio, to accommodate IPP ramping, particularly where provision of these services are inconsistent with balancing clearing volumes. If Synergy had the same BGC as IPPs, the need for such inefficient dispatch would be significantly reduced as IPPs would no longer have the ability to shadow price.

2. **Please provide an assessment whether the change will better facilitate the achievement of the Wholesale Market Objectives.**

Although the proposed changes to BGC are a vast improvement to existing practices, Synergy considers that the enhancements to economic efficiencies will be more evident if Synergy is also moved to a 90-minute rolling BGC, thereby supporting Wholesale Market Objective (a).

3. **Please indicate if the proposed change will have any implications for your organisation (for example changes to your IT or business systems) and any costs involved in implementing these changes.**

There are significant operational and system impacts associated with the implementation of the rule change proposal. Synergy trading systems and underlying logic will need to be reprogrammed to reflect new balancing gate closures.

4. **Please indicate the time required for your organisation to implement the change, should it be accepted as proposed.**

In the Addendum[1] to the Draft Report, "AEMO has requested a commencement date of not earlier than 1 December 2020" and noted that the changes specified in the Draft Report have "negligible cost implications and can be implemented as part of AEMO's business as usual enhancements".

In light of the increasing difficulties to appropriately respond to changes in daytime trough and evening peak, it is desirable to implement the Amending Rules, alongside Synergy's suggested changes, prior to the shoulder season when issues with the management of load and dispatch will be aggravated.

However, the transition from a four hour Balancing Gate Closure with a six hour bidding block to a proposed two and a half hour rolling gate closure is a significant departure from current practices.

Synergy anticipates that it will require two months from the date of approval to implement the approved changes. Synergy further requests that the rule change be reflected in AEMO's Market Trial system at least one month prior to implementation to allow Synergy sufficient time to complete end to end testing.

[1] https://www.erawa.com.au/cproot/21281/2/RC_2017_02-Addendum-to-the-Draft-Rule-Change-Report.pdf