

## Wholesale Electricity Market Rule Change Proposal Submission

**RC\_2019\_05**

### Amending the Minimum STEM Price definition and determination

#### Submitted by

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Submissions on Rule Change Proposals can be sent by:

Email to: [support@rcpwa.com.au](mailto:support@rcpwa.com.au)

Post to: Rule Change Panel  
Attn: Executive Officer  
C/o Economic Regulation Authority  
PO Box 8469  
PERTH BC WA 6849

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**1. Please provide your views on the proposal, including any objections or suggested revisions.**

Alinta Energy welcomes the opportunity to provide a submission to the Rule Change Panel on its Draft Rule Change Report for RC\_2019\_05 Amending the Minimum STEM Price definition and determination (**Draft Report**).

Alinta Energy notes that the Rule Change Panel's draft decision is to accept the Rule Change Proposal in a modified form. The Rule Change panel is seeking feedback on the proposed methodology for determining the Minimum STEM Price and the costs and benefits of reviewing the Minimum STEM Price.

In summary, Alinta Energy does not consider that the benefits from determining a revised Minimum STEM Price justify the proposed costs. Nevertheless, we have provided feedback to the Rule Change Panel on the proposed methodology for determining the Minimum STEM Price.

**A. Justifying the cost and benefits of the reviews**

The Draft Report states that the first Minimum STEM Price review will cost AEMO circa \$300,000 and the ERA will incur costs of circa \$100,000 to determine a new Minimum STEM Price. These

costs will ultimately be paid by Market Participants through market fees. Alinta Energy considers these costs to be extremely high and the benefits may not justify the costs.

The Draft Report also states that AEMO is currently undertaking its 2020 review of the Energy Price Limits and that AEMO's 2021 review of the Energy Price Limits would be the first review that includes the Minimum STEM Price. The earliest effective date of a new Minimum STEM Price would be in the second half of 2021. With the introduction of a security constrained economic dispatch energy market and a new essential services market planned to commence by 1 October 2022, facilities may be dispatched very differently to the current market. This means the scenarios that will be used to determine a new Minimum STEM Price may no longer be applicable thus effectively allowing only 12 months to reap the benefits of an updated Minimum STEM Price.

There are two large wind farms in the SWIS, Yandin Wind Farm and Warradarge Wind Farm, expected to commence operation in the second half of 2020. Alinta Energy believes the wind farms should operate for at least one full year before a new Minimum STEM Price is determined. The new wind farms will structurally change the market so allowing one year of operation will allow other Market Participants to react and the new wind farms will have the required time to make changes to avoid possible Minimum STEM Price events.

As stated in the Draft Report, there has been a behavioral change by Market Participants since the weekend of 12 and 13 October 2019 where the Balancing Price cleared at the Minimum STEM Price. This is evident by the event on 4 January 2020 where the system demand was even lower than the intervals cleared at the Minimum STEM Price but the Balancing Price cleared at  $-\$45/\text{MWh}$ . This suggests Market Participants are now aware of the risks of keeping generation online during low demand periods and are willing to decommit their facility before it reaches the Minimum STEM Price. We may not see the Balancing Price clear at the Minimum STEM Price for a significant period of time hence incurring large costs to determine a new Minimum STEM Price may be inefficient use of money.

## **B. Mechanism to allow AEMO to determine the Minimum STEM Price**

The Rule Change Panel proposes that a new Minimum STEM Price does not need to be determined if the current Minimum STEM Price is deemed appropriate by AEMO. When AEMO is determining whether the current Minimum STEM Price is appropriate, they should consider factors such as how often the Balancing Market has cleared at the Minimum STEM Price since the last review, any changes in the generation fleet since the last review and whether any Market Participants has notified AEMO that they do not consider the current Minimum STEM Price to be appropriate.

Alinta Energy agrees with this mechanism as it will minimize costs for the market and will reduce administrative burden for all parties. The factors that AEMO must consider is appropriate as it determines whether changing the Minimum STEM Price will have any effect on market outcomes before spending resources to determine a new Minimum STEM Price which might not be required.

## **C. Set the Minimum STEM Price to be the price lower than 90% of prices determined under scenario outcomes**

The Rule Change Panel proposes that the methodology to determine a new Minimum STEM Price will consider low demand scenarios that AEMO deems credible. Under each scenario, AEMO will determine the price required for the facility with the highest decommitment costs to decommit for one Trading Interval with consideration to the facility's minimum down time. The Minimum STEM Price will be a price that is lower than 90% of the prices determined in the scenarios considered.

Alinta Energy understands that the proposed methodology requires a threshold for AEMO to apply otherwise the determined Minimum STEM Price may be extremely negative due to one unique scenario. Without this threshold, it may expose Market Participants to a price that could threaten the financial viability of a prudent Market Participant which is against the objective of the Minimum STEM Price.

When AEMO is considering low demand scenarios, Alinta Energy suggests that AEMO needs to consider the following scenarios:

- where peaking facilities are committed for the morning peak and intend to stay online, if financially feasible, until the conclusion of the evening peak to save on start-up and maintenance costs. This scenario will become more pronounced as solar penetration increases in the SWIS; and
- where there are no peaking facilities online and baseload facilities need to decommit during the low demand period.

This means the Minimum STEM Price may be set by different technologies depending on the scenario.