

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

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.

The Australian Energy Market Operator (**AEMO**) appreciates the opportunity to provide this submission to the Rule Change Panel in response to the Rule Change Proposal: Amending the Minimum STEM Price definition and determination (**Rule Change Proposal**).

AEMO considers that the Rule Change Proposal does not clearly articulate the outcomes of negative clearing prices nor how the proposed changes will address the unintended outcomes raised.

The Rule Change Proposal summarises the issues as:

‘excessive and unacceptable financial loss for market generators that have generating plant remaining in service at times of low scheduled load and/or are obliged to have generating plant in service for no other reason than to provide ancillary services, as well as delivering a perverse retirement and augmentation pricing signal.’

The Rule Change Proposal proposes that the Minimum STEM Price should be sufficiently low

to incentivise the generator with the highest decommitment cost to decommit and therefore allow price differentiation between those generators (in the absence of non-market related externalities). In addition, it is AEMO's understanding that generator safety net is also considered in other jurisdictions when setting price caps. The Rule Change Proposal proposes to amend the Minimum STEM Price from -\$1,000 to -\$200 in the interim while an appropriate methodology is determined.

With the order of decommitment guided by price differentiation, the proposal to raise the Minimum STEM Price in the interim contradicts the principle that the Minimum STEM Price needs to be sufficiently low to incentivise generators to decommit. It could be inferred that the current Minimum STEM Price is not low enough to enable price differentiation.

An analysis of recent bidding behaviour indicates that several Market Generators bid capacity into the Balancing Market at the Minimum STEM Price, despite not being required to (only facilities that do not meet the Balancing Facility Requirements Market Procedure, those who are provided Ancillary Services or facilities undergoing commissioning are required to bid at the Minimum STEM Price). This bidding behaviour could be attributed to either the Minimum STEM Price not being low enough (e.g. participants are needing to stay generating for other reasons) or Market Participants being unaware of the implications of bidding at the Minimum STEM Price. In the absence of information regarding individual Market Participants' commercial arrangements, AEMO is unable to determine the reason for this behaviour nor how a change to the Minimum STEM Price would influence bidding practices.

While a higher Minimum STEM Price will reduce the costs to Market Generators when the Balancing Price is equal to the Minimum STEM Price, it is unclear how a higher Minimum STEM Price will help alleviate the concern about generation facilities being in service only for the purpose of providing ancillary services. In addition, the Rule Change Proposal does not explain how the proposed changes to the Minimum STEM Price will address the '*perverse retirement and augmentation price signals*'.

AEMO agrees in principle that the determination of Minimum STEM Price should be reviewed along with the other Energy Price Limits, albeit whether a regular review is warranted and its frequency should be further considered as the Rule Change Proposal is refined. AEMO, however, notes that the proposed amendments as specified in the Rule Change Proposal do not provide sufficient detail regarding how AEMO is to calculate the Minimum STEM Price.¹ This will likely create challenges in proposing and approving the Minimum STEM Price. AEMO suggests that the proposed amendments need to provide a level of detail for the calculation similar to the Maximum STEM Price and Alternative Maximum STEM Price in clauses 6.20.3 and 6.20.7 of the Wholesale Electricity Market Rules.

AEMO notes that the five-yearly review of the Energy Price Limits will not undertake the 'development of an appropriate formula for the Minimum STEM Price',² rather it will assess the appropriateness of the methodology. AEMO therefore suggests that the Rule Change Proposal should assess the appropriateness and level of detail of the methodology proposed.

¹ Proposed new clause 6.20.7(a)(iii) of the WEM Rules would require AEMO to propose a Minimum STEM Price based on "AEMO's estimate of the highest price that would induce all generators absent of non-market-related externalities to decommit".

² See page 6 of the Rule Change Proposal.

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

In the absence of a clearly defined methodology to calculate the Minimum STEM Price as a part of the Annual Energy Price Limits review, AEMO is unable to assess whether this proposed change will better achieve the Wholesale Market Objectives.

With respect to the proposed interim reduction of the Minimum STEM Price to -\$200, AEMO considers that this change may not better achieve the Wholesale Market Objectives. Specifically, a higher Minimum STEM Price may not better achieve the Wholesale Market Objectives as:

- It may discourage competition (**Objective b**) in the South West interconnected system as it limits the ability for Market Participants to price differentiate bids in the Balancing Markets.
- It may result in an economically inefficient outcome (**Objective a**) as a higher Minimum STEM Price may prevent generators from submitting their minimum generation at a negative price representative of its decommitment costs and, therefore, may result in generators being turned off in circumstances where it may be more economical for the Market Participant to remain generating at lower negative prices.
- It may hamper economic efficiency (**Objective a**), new entry (**Objective b**), and discourage measures to manage consumption volumes/timing (**Objective e**) as it may blunt the investment signals for energy storage facilities (low energy price and price variability).

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.

If this Rule Change Proposal proceeds as drafted, then AEMO will be able to modify the Minimum STEM Price in its market systems at no system cost, assuming that the revised price is of the same order of magnitude. AEMO anticipates that minimal industry acceptance testing will be required.

The inclusion of the Minimum STEM Price as a part of the annual Energy Price Limits review will incur increased ongoing costs to administer.

AEMO estimates that the inclusion in the annual Energy Price Limits review will cost \$50,000 per annum assuming a formulae type approach similar to the Maximum STEM Price can be developed, however this is dependent on the complexity and the prescription of steps in the Final Rule Change Report.

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

AEMO anticipates that it will be able to incorporate the proposed changes in the next Energy Price Limits review following the commencement of the proposed amendments.