

## 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.**

Perth Energy maintains its view (outlined in the initial submission<sup>1</sup>), that the issue sought to be addressed by this Rule Change Proposal does not warrant changes to re-define the Minimum STEM Price because:

- prices reaching the floor does not indicate there is a problem with the determination of the Minimum STEM Price;
- the current Minimum STEM Price of -\$1,000 meets the requirements of a price floor, and any arbitrary alternative is unlikely to; and
- the provision of energy and Ancillary Services are currently conflated, and while we agree they should be decoupled, it is clear this cannot be done effectively ahead of the delivery of the Energy Transformation Strategy.

Moreover, Perth Energy highlights the correspondence between the Minister for Energy

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<sup>1</sup> Available at: [https://www.erawa.com.au/cproot/20924/2/RC\\_2019\\_05----P1-Submission----Perth-Energy.pdf](https://www.erawa.com.au/cproot/20924/2/RC_2019_05----P1-Submission----Perth-Energy.pdf)

(Minister) and the Economic Regulation Authority (ERA) regarding the ERA's five-yearly review of the Energy Price Limits under clause 2.26.3 of the Wholesale Electricity Market (WEM) Rules which state:

*"A number of important aspects of this review overlap with details of the new WEM arrangements currently being developed by the Energy Transformation Taskforce."<sup>2</sup>*

*"I consider there to be clear benefit in delaying the clause 2.26.3 review until sometime after October 2022."<sup>3</sup>*

*"The ERA's review of the method used to calculate energy price limits overlaps with the Energy Transformation Implementation Unit's work stream on market power mitigation."<sup>4</sup>*

The Minister cited benefits of the deferral as: to allow clarity provided by the WEM design and rule changes currently under development; and being in the interests of stakeholders' engagement.

Perth Energy agrees with the comments made by the Minister and the ERA in relation to the five-yearly review, and considers they equally apply to Synergy's proposal to redesigned the Minimum STEM Price.

Perth Energy understands a suite of appropriate market power mitigation tools are being developed as part of the Energy Transformation Strategy for application from October 2022. This would mean the proposed Amending Rules, if expedited could apply for a maximum of 15 months, but could otherwise apply for as few as three months. We highlight the detail that would be needed to develop the process and the time required to collect (or produce where unavailable<sup>5</sup>) input variables and assumptions for modelling purposes is likely to be significant, and therefore expect any assessment of costs and benefits would need to consider a three—month application period likely.

Perth Energy recommends the Rule Change Panel rejects the Ruel Change Proposal on the basis the proposed amendments:

- do not address Synergy's concerns, which cannot be done effectively ahead of the introduction of Essential System Services under the Energy Transformation Strategy;
- are contrary to market power mitigation measures in the wholesale market and must be considered as part of the overall suite of measures in the WEM Rules and other legislative instruments administered by the Minister and are a matter of policy; and
- the expected cost of between \$170,000+ and \$400,000+<sup>6</sup> is likely to be greater than

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<sup>2</sup> Page 1, Review of the method used to calculate the Benchmark Reserve Capacity Price and the Energy Price Limits pursuant to clause 2.26.3 of the Wholesale Electricity Market Rules, Minister for Energy, 4 May, available at: <https://www.erawa.com.au/cproot/21238/2/Minister-for-Energy-Letter---Review-of-Benchmark-Reserve-Capacity-Price-and-Energy-Price-Limits.PDF>.

<sup>3</sup> Ibid.

<sup>4</sup> Page 1, Review of the methods used to calculate the benchmark reserve capacity price and energy price limits: Suspension of the method reviews, ERA, 18 May 2020, available at: <https://www.erawa.com.au/cproot/21240/2/NOTICE---Suspension-of-BRCPEPL-method-reviews.pdf>

<sup>5</sup> This is exemplified in the calculation of fuel costs in the annual review of Energy Price Limits and the margin values and Cost\_LR parameters. Where these are not provided by Market Participants, AEMO must use publicly available information as a substitute, and therefore cannot accurately include these key input prices.

<sup>6</sup> AEMO estimates the proposed amendments will cost between \$70,000 and \$300,000, the ERA would incur a further \$100,000, and Market Participants would incur costs of consultation and other system changes. Page 27, RC\_2019\_05 Draft Report, ERA, 13 March 2020, available at: [https://www.erawa.com.au/cproot/21101/2/RC\\_2019\\_05-Draft-Rule-Change-Report.pdf](https://www.erawa.com.au/cproot/21101/2/RC_2019_05-Draft-Rule-Change-Report.pdf)

the overall market benefit given that:

- it will only apply for between three and fifteen months;
- it is an administered price, which, with the expectation that several input variables and assumptions will need to be estimated where they are unavailable, the input variables and therefore modelled outcomes will not be reflective of the actual costs of plant operating in periods where the price is at the floor, and therefore it is unlikely to be a better price floor and may in fact produce significant unintended consequences;
- it will only affect market outcomes on the few occasions the market is settled at the floor price – this has only been in three Trading Intervals since Balancing Market commencement<sup>7</sup> - those identified by Synergy as the trigger for this Rule Change Proposal; and
- changes in the floor price result only in transfers between Market Generators and Market Customers, not overall market benefits.

Should the Rule Change Panel consider there is merit in continuing to progress changes to the WEM Rules, Perth Energy recommends it instead works with the Energy Transformation Taskforce to bring forward reform initiatives. This is a pragmatic alternative, and we expect it will result in a more cost-effective, and appropriate arrangement.

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

Perth Energy cannot support the progression of the Rule Change Proposal, as we do not consider it minimises the long-term cost of electricity supplied to customers from the South West interconnected system. We do not consider the benefits over the short pay-back period outweigh the costs.

Moreover, the cost and resourcing required to implement this temporary strategy would be better used designing the new Essential System Services markets and new market power mitigation measures to resolve Synergy's identified problem with a more considered and long-term solution.

We recommend the Rule Change Panel bring forward the relevant aspects of the new market arrangements (including the method used to determine the price floor), rather than developing its own temporary, short-term solution.

The market objective assessment provided in our initial submission also continues to be applicable.

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**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.**

The proposed changes would increase the administrative burden on Perth Energy in relation to:

- resourcing required to consider the annual and five-yearly review of an additional

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<sup>7</sup> AEMO's Balancing Market Summary data, available at: <http://data.wa.aemo.com.au/#balancing-summary>

administered price (or prices) as part of the Energy Price Limits Review; and

- IT system and process changes associated with the need to (at least annually) change the Minimum STEM Price (or prices).

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

Perth Energy would need three months' notice to update the necessary systems and processes to ensure it remained compliant with a revised Minimum STEM Price (or prices)

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