

B E T W E E N :

ECONOMIC REGULATION AUTHORITY

Applicant

and

ELECTRICITY GENERATION AND RETAIL CORPORATION TRADING AS
SYNERGY

Respondent

DECLARATION

Date of Document: 22 November 2022

Place: Perth

Declaration

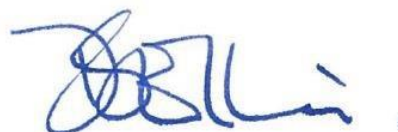
The Electricity Review Board declares that the Electricity Generation and Retail Corporation trading as Synergy (**Synergy**):

- (a) on each day between 16 April 2016 and 10 July 2017 inclusive; and
- (b) in respect of the Trading Intervals commencing at 6.00am and ending at the end of the 11.30pm Trading Interval for which the prices offered by Synergy in Balancing Submissions exceeded \$40/MWh;

(being 11,012 Trading Intervals) (**Affected Trading Intervals**), engaged in conduct in contravention of clause 7A.2.17 of the Wholesale Electricity Market Rules by offering prices in its Balancing Submissions (being 11,012 Balancing Submissions) in excess of Synergy's reasonable expectation of the short run marginal cost of generating the relevant electricity by the Balancing Facility, when such behaviour related to market power, by reason of the matters set out in its Decision dated 7 November 2022, summarised below:

1. In respect of Affected Trading Intervals on Trading Days from 16 April 2016 to 13 July 2016 inclusive, Synergy calculated its prices offered in its Balancing Submissions by including a component in respect of start-up costs which exceeded Synergy's reasonable expectation of those costs as short run marginal costs insofar as they:
 - (a) included costs associated with inspections and maintenance work which were double counted;
 - (b) were not appropriately based on a life cycle assessment of the need for maintenance and therefore involved an unwarranted over recovery;

- (c) were based on the original equipment manufacturer's recommendations whereas actual maintenance work was carried out less frequently; and
 - (d) included costs for maintenance that were time-based, as opposed to depending on the number of starts, and therefore included costs that are not properly characterised as marginal costs.
2. In respect of Affected Trading Intervals on Trading Days from 14 July 2016 to 10 July 2017 inclusive, Synergy calculated its prices offered in its Balancing Submissions by including components in respect of start-up costs and gas input costs which exceeded Synergy's reasonable expectation of those costs as short run marginal costs insofar as:
- (a) the start-up costs were affected by the matters identified in paragraph 1(a) to (d);
 - (b) the gas input costs were not based on Synergy's opportunity cost of gas (which is the proper measure for the purpose of calculating short run marginal cost), but were based on the price of gas under Synergy's Gorgon Contracts which was:
 - (i) not a marginal cost of gas;
 - (ii) higher than Synergy's weighted average price of gas paid, and Synergy's opportunity cost of gas, for the Trading Days from 14 July 2016 to 30 November 2016; and
 - (iii) higher than Synergy's opportunity cost of gas for the Trading Days from 1 December 2016 to 13 July 2016.
3. Using cost inputs that were above Synergy's reasonable expectation of the short run marginal cost of those inputs, as set out in paragraphs 1 and 2 above, had the consequence that each Balancing Submission submitted by Synergy in the Affected Trading Intervals contained at least one price that was in excess of Synergy's reasonable expectation of the short run marginal cost of generating the relevant electricity by the Balancing Facility.
4. At all times between 16 April 2016 to 10 July 2017 inclusive, Synergy operated in the market for the generation of electricity in the region served by the South-West Interconnected System and had market power during the Affected Trading Intervals.
5. Synergy's conduct as set out in paragraphs 1 – 3 above related to market power during the Affected Trading Intervals in the market for the generation of electricity in the region served by the South-West Interconnected System.



Presiding Member
Electricity Review Board

