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Energy Policy WA

Submitted via: energymarkets@dmirs.wa.gov.au

## FCESS COST REVIEW AMENDING RULES

Alinta Energy appreciates the opportunity to provide feedback on the proposed amendments to the WEM Rules under the FCESS Cost Review.

We provide the following feedback for EPWA's consideration:

1) We support the proposed amendments to the FCESS tiebreak method considering that this will support reducing uplift payments and improve efficiency.

2) However, if the dispatch engine is not reformed to avoid "trapping" Facilities[1], we are concerned that dispatch could remain inefficient. Although the tiebreak reforms could reduce the number of Facilities dispatched unnecessarily in the first place, once these Facilities are "trapped" there may continue to be more Facilities dispatched than necessary. This would conflict with the WEM Objective under 1.2.1(a), (d) and the State Electricity Objective to reduce greenhouse gas emissions and promote efficient operation. We recommend that the dispatch engine is reformed to resolve these issues as a priority. In the meantime, we recommend that the WEM Rules or Offer Construction Guideline clarify the circumstances where a Facility is permitted to amend their offers to 'un-trap' themselves and shutdown. This should include where a Facility is expected to not clear for energy or FCESS.

3) We oppose the proposed changes to the general trading obligations and the removal of the Market Impact Test under 2.16E.1 for the following reasons:

    a. We note the intent of these reforms is to remove uncertainty that a Market Participant may have market power and therefore to limit the practice of pricing at the market cap. We question whether the proposed reforms are necessary to permit enforcement action against these Market Participants and if not, why the reforms are required.

    b. We consider that the practice of offering at the market cap may not be driven by uncertainty about whether a Facility has market power and more by a forecast of a Facility's efficient variable costs over a short run time (including start-up costs), given that it is not scheduled to be dispatched.

    c. As start-up costs make up a majority of the costs for a short run, we consider that a more effective way to reduce the practice of offering at the price cap would be to expand the implementation of Fast Start Inflexibility Profiles to allow participants to offer profiles that cover their start costs. This would enable Facilities to offer at prices below the cap to cover their start costs by giving them certainty they can operate for a duration that would allow them to cover these costs.

    d. We consider that the Market Impact Test was and is part of the Market Power Mitigation Strategy and that it serves to ensure that limited resources are focused where they may have the greatest impact.

    e. The removal of 2.16A.1 means that what constitutes an Irregular Price Offer depends solely on the Offer Construction Guideline. We consider that is inappropriate because it conflicts with the proposed criteria for what content should be developed in WEM

[1] i.e. dispatching Facilities to provide energy within the Enablement Limits, even though the Facility may not otherwise have been dispatched for energy or FCESS.

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Procedures. These criteria include that a WEM Procedure should be “primarily administrative in nature” and “not have a material impact[2] on the WEM operation”.

4) If the proposed changes to the general trading obligations are progressed, we recommend that the definition of an Economic Price Offer be amended to clarify that it is an offer which is not greater than a <u>reasonable forecast</u> of all efficient variable costs. We note that it would be unreasonable to compare efficient variable costs with offers on an ex-post basis – it is appropriate to consider the information reasonably available to the Market Participant before gate closure.

5) We support the proposed amendments to the portfolio assessment method under WEM Rule 2.16B.1, considering that the proposed amendments better reflect the desired outcome from the Market Power Mitigation Strategy: Information Paper and how Market Participants in the energy market may operate from an operational and practical perspective (notwithstanding how corporate structures have been set up).

6) However, we consider that the following should be incorporated into WEM Rule 2.16B.1.(a)(iv): (i) the concept of associated Market Participants and entities should be retained, (ii) the common ownership concept should be broadened to include “another entity”, and (iii) a concept of direct and indirect ownership and control should be incorporated. This is to ensure that the desired outcome indicated in the Market Power Mitigation Strategy: Information Paper is achieved (capturing both common and associated registration, ownership and control) and that Registered Facilities which are indirectly owned or controlled by the same Market Participant or entity (whether that be ultimately or throughout the corporate structure) are captured within the same Portfolio. We have proposed these amendments in mark-up below, along with some further minor clarifications:

> *iv. Registered Facilities which are<u>:</u>*
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> *<u>1.</u> registered to ~~a~~ <u>the same</u> Market Participant<u>;</u>~~,~~ or*
> 
> *<u>2.</u> <u>registered to, or owned or controlled by, Market Participants or entities that are associated entities (as that expression is defined in the Corporations Act) of one another; or</u>*
> 
> *<u>3.</u> wholly or partly owned by ~~a~~ <u>the same</u> Market Participant <u>or entity (whether directly or indirectly);</u>~~,~~ or*
> 
> *<u>4.</u> wholly or partly controlled by ~~a~~ <u>the same</u> Market Participant or ~~another~~ entity <u>(whether directly or indirectly)</u>, including by way of a shared trading desk, must be allocated to the same Portfolio; and*

7) We oppose the proposal to require Market Participants to offer capacity as In-Service where a shortfall is predicted under 7.4.2C and 7.4.2D considering that:

   a. Until it is reformed, the current dispatch engine could ‘trap on’ numerous Facilities required to offer as ‘In-Service’ that would not otherwise be economic or necessary to dispatch to alleviate the shortfall. This would conflict with the WEM Objective under 1.2.1(a), (d) and the State Electricity Objective to reduce greenhouse gas emissions and promote efficient operation.

   b. The proposed changes could undermine price discovery and make it more difficult to forecast their run time and therefore their EVCs. This may incentivise participants to be conservative in forecasting their run and offer higher prices than they would under the status quo for their Available capacity, increasing prices.

   c. The capacity would not meet the definition of “In-Service” if it is not scheduled outside of the Facility’s Start Decision Cutoff. This could cause non-compliance with Dispatch Instructions and expose the Market Participant to enforcement actions.

   d. As stated, we consider a more effective way to reduce the practice of offering at the price cap and as ‘Available’ would be to expand the implementation of Fast Start Inflexibility Profiles to allow Facilities to recover their start-up costs.

   e. As a principle, where possible, mandating market behaviours should not substitute for

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[2] “‘Material’ impacts would include introducing changes to market behaviour, having a cost or price impact, and impacts to reliability and security”.

changes in market design, especially where these behaviours are otherwise compliant with the WEM Rules, Offer Construction Guideline, WEM Objectives and general economic principles.

8) If 7.4.2C and 7.4.2D is implemented as proposed, we recommend that Market Participants are permitted at least three months from the commencement date of the WEM Rules to support them having an opportunity to implement the necessary systems, processes and controls to comply with the new obligations.

Thank you for your consideration of Alinta Energy's submission.

Yours sincerely

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