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Energy Policy WA
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Perth WA 6000

Sent via email: energymarkets@dmirs.wa.gov.au

Dear Energy Policy WA

EXPOSURE DRAFT OF WHOESALE ELECTRICITY MARKET AMENDING RULES (FCESS COST REVIEW AMENDMENTS)

The Chamber of Minerals and Energy of Western Australia (CME) is the peak representative body for the resources sector in WA. CME is funded by member companies responsible for 86 per cent of the State's mineral workforce employment.¹ In 2022-23, the WA resources sector accounted for 47 per cent of WA's economic activity,² 91 per cent of goods exports,³ 47 per cent of investment⁴ and 11 per cent of employment (direct).⁵ The sector also contributed 33 per cent of the WA Government's general revenue, enabling the provision of public goods and services such as doctors and nurses, teachers and police.⁶

Of specific relevance to this consultation, CME members account for around 60 per cent of large industrial demand in the WA Wholesale Electricity Market (WEM).

Access to low emission, reliable and globally cost-competitive energy is a key enabler for members to maintain their competitiveness to both secure investment and trade in international commodity markets. Members highlight significant increases in electricity prices in the SWIS over recent years, including a doubling of wholesale prices since 2020, which presents a material risk to the sustainability of operations.

In response to significant cost increases following the introduction of the new WEM on 1 October 2023, the Minister for Energy made the Wholesale Electricity Market Amendment (Price Ceiling) Rules 2024 to introduce a temporary Frequency Co-optimised Essential System Service (FCESS) Clearing Price Ceiling between 22 May 2024 to 22 November 2024. This interim solution was designed to mitigate cost increases in the short-term while an investigation into the underlying causes of the large cost increases progresses.

CME appreciates the opportunity to provide this submission and our sector's insights regarding the Coordinator of Energy's (Coordinator) proposed [WEM amending rules](#) following the completion of the initial investigation into FCESS costs in the WEM.

The transition to net zero

A net zero future represents a significant transition for the WA resources sector. CME members are already transitioning their current and future operations to achieve net zero emission targets by 2050 or earlier in order to meet both voluntary corporate commitments and State and Federal regulatory requirements. In the short to medium term, industry decarbonisation pathways will involve electrification. The timely transition of the state's energy system underpins our sector's decarbonisation pathway.

We acknowledge the WA Government's work to date regarding the transition of the state's main electricity grids: the South West Interconnected System (SWIS) and the North West Interconnected System (NWIS); however, it is critical this work progress at pace and that there is ongoing communication on the roadmap, supported by appropriate and timely investments, to provide stakeholders with certainty.

¹ Government of Western Australia, [2022-23 Economic indicators resources data](#), full-time equivalents onsite under State legislation, DEMIRS, 10 November 2023.

² As measured by gross value add (GVA). Australian Bureau of Statistics, [5220 Australian National Accounts: State Accounts](#), Table 6.

³ Department of Energy, Mines, Industry Regulation and Safety (DEMIRS), [2022-23 Economic Indicators Resource Data File](#), 9 January 2024. Australian Bureau of Statistics, [5302 Balance of Payments and International Investment Position](#), Table 21.

⁴ Includes Gross Fixed Capital Formation plus minerals and petroleum exploration. Australian Bureau of Statistics, [5220 Australian National Accounts: State Accounts](#), Table 25. Australian Bureau of Statistics, [8412 Mineral and Petroleum Exploration](#), Table 4.

⁵ Australian Bureau of Statistics, [6291 Labour Force, Australia, Detailed](#), Table 5.

⁶ Includes Commonwealth grants from North West Shelf royalties, iron ore lease rentals, payroll taxes, transfer duties and other payments to government agencies. Government of Western Australia, [2022-23 Annual report on State finances](#), Department of Treasury, 28 September 2023, table 2.1.

CME’s position on the future energy system is that it must supply low emission, reliable and globally cost-competitive energy. This is critical for the ongoing viability of existing resources sector operations, the development of new projects and the decarbonisation of the sector.

The WA Government must act with urgency given the short timeframes for industry to make these critical investment decisions prior to retirement of coal fired generation in 2030 and the long planning and construction timeframes to deliver new energy infrastructure.

Therefore, we reiterate key recommendations from our 2024-25 State Pre-Budget Submission⁷ including that the WA Government release a draft master transmission plan for the SWIS as soon as possible. We have also flagged the need for appropriate coordination and resourcing to support the detailed planning and construction of transmission infrastructure to support industry decarbonisation.

Cost competitive energy and WEM Reform

With regards to cost-competitive energy, CME takes this opportunity to again raise industry’s concerns over the current trajectory of electricity costs in the WEM.

- Wholesale electricity costs in the WEM have doubled over the past 3 years, from around \$46/MWh in 2021 to \$96/MWh in 2024 to date.⁸
- The Australian Energy Market Operator’s (AEMO) market fees have tripled between 2020-21 and 2024-25.⁹ Key grid stability and reliability costs have increased 5-fold since the introduction of the new Essential System Services (ESS) market on 1 October 2023. Total ESS costs, including Frequency Co-optimised Essential System Service markets (FCESS) and Non-Co-optimised Essential System Services (NCESS) have increased to around \$100 million per quarter since Q4 2023, compared with roughly \$20 million per quarter in power system management costs in 2021-22.¹⁰ FCESS uplift costs alone have averaged \$52.7 million per quarter between Q4 2023 and Q2 2024, two and half times total power system management costs prior to the 1 October 2023. This is shown in Figure 1 below.

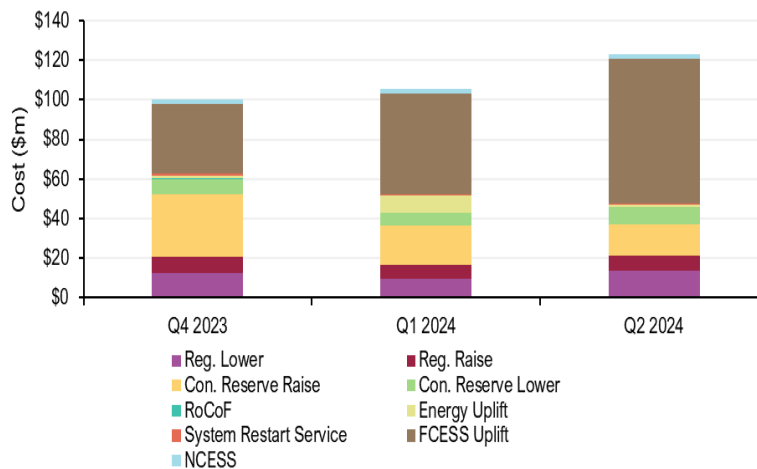


Figure 1: Total Costs ESS and Uplift Q4 2023 to Q2 2024¹¹

⁷ [CME 2024-25 WA State Pre Budget Submission](#)

⁸ AEMO, [Market Data: Short-term Energy Market \(STEM\) – Summary](#), accessed 16 August 2024.

⁹ Economic Regulation Authority, [Australian Energy Market Operator’s AR6 second in-period allowable revenue and forecast capital expenditure proposal: Final Determination](#), 28 June 2024. Figure 2, p 15.

¹⁰ AEMO, [Quarterly Energy Dynamics Q4 2023](#), 25 January 2024; AEMO, [Quarterly Energy Dynamics Q2 2024](#), 15 July 2024, p.71

¹¹ Quarterly Energy Dynamics (QED) Q2 2024, p.71

In addition to the above, the Economic Regulation Authority (ERA) is currently considering doubling the maximum Energy Offer Price Ceiling in the WEM from the current alternative maximum price of \$738/MWh to \$1,500/MWh¹², as well as changes to the methodology for determining Benchmark Reserve Capacity Prices (BRCP) that are expected to increase reserve capacity prices.¹³

Both of these proposed price changes would be expected to increase the overall cost of electricity to consumers, further risking the competitiveness of electricity costs in the SWIS.

FCESS Amendments and Exposure Draft

CME welcomes efforts by the Energy Coordinator to mitigate cost increases in the WEM, noting the importance of cost-competitive energy to the WA resources sector.

CME supports the proposed amendments on the basis that they are likely to result in lower costs and greater system reliability by: ensuring bids are based on efficient variable costs; enhancing measures that mitigate potential market power; avoiding over-compensation in certain situations; and requiring relevant Market Participants to monitor and act to mitigate expected shortfalls.

Conclusion

The CME supports the proposed amendments outlined in the 'Exposure Draft of Wholesale Electricity Market Amending Rules'. We look forward to the Coordinator's continued efforts to support the once-in-a-generation transformation of the SWIS to a low emission, reliable, and globally cost-competitive energy system.

For further information regarding this submission, please contact Aaron Walker, Manager - Industry Competitiveness and Economics, on 0477 679 195 or via email at a.walker@cmewa.com.

Yours sincerely



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¹² Economic Regulation Authority (ERA), [Energy Offer Price Ceiling 2024: Draft determination](#), 8 April 2024.

¹³ Economic Regulation Authority (ERA), [Review of the Benchmark Reserve Capacity Price WEM Procedure](#), 5 April 2024