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FCESS COST REVIEW - EXPOSURE DRAFT

Proposed Wholesale Electricity Market (WEM) Amending Rules

1. Background

Merredin Energy Pty Ltd (MEPL) owns and operates the 82 MW open cycle gas turbine power station located in Merredin, Western Australia (Merredin Energy Power Station, MEPS). The plant is fully dispatchable and can achieve minimum generation levels within 15 minutes and maximum output within 25 minutes or faster. The main purpose of the power station is to provide critical energy security in the form of reserve capacity to ensure that supply reliability is maintained if electricity demand is unusually high and/or there are unforeseen plant outages.

In recent months, MEPS has played a critical role in keeping the lights on in WA, being dispatched by AEMO in response to network constraints or Lack of Reserve on numerous occasions.

2. FCESS Cost Review – Proposed rule changes

Energy Policy WA has proposed a number of amending rules following the FCESS Cost Review in an Exposure Draft on 9 August 2024. While MEPL is generally supportive of the proposed amending rules, there are some aspects that are likely to have a materially detrimental effect on the commercial viability of MEPS.

MEPL's concerns are outlined below.

<u>Proposed Rule Change: 7.4.2C - Obligation on Market Participants who offer capacity as Available Capacity to monitor Pre-Dispatch Schedules and Dispatch Schedules</u>

EPWA has proposed an amending rule which will "*impose an obligation on Market Participants who offer capacity as Available Capacity to monitor Pre-Dispatch Schedules and Dispatch Schedules for shortfalls in energy, Contingency Reserve Raise or Regulation Raise, and move capacity from Available Capacity to In-Service Capacity as required to alleviate any shortfalls*"

Response:

MEPL <u>does not support</u> this proposed rule change.

Following the roll out of the New Market in October 2023, and with the introduction of 5-minute dispatch, Merredin Energy observed a distinct increase in the number of 'Lookahead' signals, indicating a high likelihood of dispatch. After changing the offer for capacity from Available to In-service, and starting the Gas Turbines, MEPS on numerous occasions did not receive a Dispatch Instruction. This operating regime results in a significant cost for start-up and shut down fuel, and will significantly reduce the time until the GTs require overhaul, with no revenue from energy export to compensate. In addition this regime will result in unnecessary emissions from burning diesel without generating electricity.

Furthermore, MEPS' analysts have observed that the difference between the pre-dispatch price and the settlement price varies widely. Due to the high cost associated with start-up and shut down, MEPS submits bids at the Maximum RTM Price (which is still well below MEPS operating cost for short runs), however the pre-dispatch price very rarely translates to the actual settlement price, resulting in MEPS having a negative net margin on these generation events.

From the last six months' data, the following observations were made:

- The pre-dispatch price is within 20% of the reference trading price for approximately 50% of the intervals
- However, when looking at prices at or above the facility's breakeven this has only occurred 11 out of the 7,932 intervals
- This reduces further if we only account for instances where forecast targets were received by MEPS. This scenario only occurs 6 times or ~ 0.00069%

The proposed rule change places an onerous obligation on each facility to monitor the market and change operating regime, with a civil penalty for non-compliance. This will further increase the cost-of-compliance for each facility, further driving up the cost to consumers.

MEPL would be supportive of any proposed rule changes which allow for the following process to occur:

- AEMO continue to monitor the market conditions
- AEMO predict when market participants are required to generate
- AEMO direct participants to generate
- Market participants that are dispatched out of merit receive revenue in line with their RTM submissions

Proposed Rule Change: 7.7.8A – Provision of Energy Uplift Payments

EPWA has proposed an amending rule which will "*provide for Energy Uplift Payments for Facilities that are constrained on by AEMO during a period covered by a Low Reserve Condition Declaration*"

Response:

MEPL supports this proposed rule change.

Since the inception of the New Market in October 2023, MEPS has been brought into service an unprecedented number of times, adding to the Energy Security of WA and supporting the increased penetration of renewables into the SWIS. Based on the previous WEM Rules which applied, MEPL had assumed that the Energy Uplift Payments would directly replace the previous mechanism (being Constrained On payments) on a like-for-like basis.

However, MEPL has recently been advised that on numerous occasions since the change when AEMO has called upon MEPS to generate out of merit to support the network, that Energy Uplift Payments were provided erroneously. Consequently, MEPL has been 'over-compensated' and will be subject to significant Adjustment repayments once the settlement data is manually re-run. Furthermore, MEPL will be subject to interest charges due to these overpayments.

The result of the current interpretation of the WEM Rules is that MEPS (and other generators who have supported the SWIS during times of need) has suffered a net loss by providing this service, as there are new specific conditions on Energy Uplift Payments that were not applied to the previously used Constrained-On payments.

MEPL's understanding is that the proposed amendment will remove any uncertainty regarding when Energy Uplift Payments will be applicable, and Market Participants will have some assurance that when they are called upon to generate out-of-merit that they will be compensated accordingly.

Yours sincerely,

Wacek Lipski

CEO

Merredin Energy