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Energy Policy WA
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Re: Exposure Draft for the FCESS Cost Review Amendments

SSCP welcomes the opportunity to provide feedback on the Exposure Draft of the FCESS Cost Review Amending Rules. SSCP is generally supportive of the proposed intent to bring down overall costs in the Market which have been significant since the commencement of the new market on 1 October 2023. SSCP considers that some aspects of the drafting requires further consideration. In particular SSCP provides the following comments in response to the Exposure Draft:

Removal of FCESS Uplift Payments for RoCoF Control Service (RCS) and the Mandatory Offer of RCS:

SSCP is concerned that the Removal of FCESS Uplift Payments for the RCS will lead to a number of issues for which the net cost impact is cumulatively larger than the desired effect the proposed change will have on reducing Global FCESS Uplift Payments.

Whilst it is understood that the proposed FCESS amendments are intended to be considered together, SSCP has conducted its own modelling on the isolated impact of removing FCESS Uplift Payments for RCS. This modelling suggests that Uplift Payments for RCS, in-and-of-itself, is not the key driver for increased market costs. SSCP believes that the proposed change is only likely to reduce Global FCESS Uplift Payments by around 5%. And it will create a corresponding increase in Energy Prices as Market Generators' Contingency Raise costs will be allocated a higher proportionate share of total ESS Uplift costs, directly in their SRMC offer construction. This is due to the allocation of FCESS Uplift Payments being split between all of the FCESS services that a facility is providing in any given interval. Most facilities currently providing both Regulation and Contingency services are likely to be receiving a portion of the RCS Uplift Payment, so the removal of this payment will move the Uplift cost from RCS into the Regulation and Contingency cost buckets. Further to this, the added mandatory requirement to offer RCS while a facility is generating and able to provide RCS will lead to additional financial risk of a facility being trapped in an RCS trapezium while Energy Market signals suggest a facility should de-commit.

As outlined above, SSCP does not see the removal of the RCS Uplift Payment as a core driver in reducing FCESS costs. An additional concern with the proposal is that the 'blunt instrument' approach of simply removing RCS uplift payments in their entirety creates a flow-on issue, which the Exposure Draft acknowledges, whereby there still remains a need for some form of Uplift Mechanism for the RCS. The current changes move away from a market driven mechanism and towards a mechanism that requires cumbersome manual intervention by AEMO, through the application of physical constraints and the use of



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the Energy Uplift Mechanism for compensation. AEMO has not yet provided detail of how it intends to do this. Without this detail it is unclear to SSCP how the proposed Removal of FCESS Uplift Payments for the RCS will be operationalised. This added layer of complexity and uncertainty has the potential to result in further inefficient or unintended outcomes from both a market and operational perspective, leading to the need for further reform in the future.

For the reasons outlined above, SSCP does not support this proposed change as it does not actually demonstrate material overall cost improvement; and the reallocation of costs to generators will increase energy costs as they will need to be recovered through the SRMC offer construction¹. In addition, off-market mechanisms are then required to be designed and administered which create more challenges. SSCP believes that issues identified with the Tiebreaker Method; and the Uplift calculation taking into account the Service revenues, should be the primary areas of focus for the FCESS Cost Review as these will address the actual over scheduling and over payment of RCS.

Portfolio Assessment:

SSCP believes the proposed drafting surrounding a shared trading desk should be a consideration for determining if entities are a portfolio for the purpose of 2.16B, but not an explicit determination as it is currently proposed. A shared trading desk does not automatically suggest that an organisation has control over another that it provides services to.

Trading functions are governed by:

- The external obligations and duties defined under Market Rules, Procedures and Offer Construction Guidelines;
- The internal obligations and duties defined by corporate structures and governance including trading policies and fiduciary duties of directors and officers;
- Shareholder direction and internal policies and procedures;
- The physical plant characteristics and engineering assessments of operating performance.

These instruments remove control and decision making from the trading desk. These protocols are well understood and apply across many different sectors where it is efficient to aggregate the provision of such services.

Under the proposed drafting, SSCP is concerned that any entities operated through a shared trading desk will be considered a Portfolio, leading to an undesirable outcome of inaccurately allocating Facilities as associated Portfolios. The ERA itself had previously commented that it “will consider registration, ownership and operational control of a registered facility when determining Portfolios” in response to their portfolio determination procedure (EEPC_2023_02). SSCP proposes the inclusion of wording in 2.16B.1.(a)iv that obligates the ERA to consider the implications of a shared trading desk when determining whether facilities

¹ SSCP understand the ERA is seeking comment on recovering FCESS costs through the SRMC offer construction. SSCP regards this as another demonstration of the flaws of the proposed reforms. Both the EPWA and ERA proposals appear to simply remove the ability for cost recovery instead of enacting changes that are likely to actually reduce costs.



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are part of a portfolio; but a shared trading desk should not in-and-of-itself determine a Portfolio, and the ERA should continue to be informed by a range of aspects when making a determination on control.

Tiebreak Methodology:

SSCP believes that the inclusion of technology types in the prioritisation order, based on the likelihood to incur less uplift cost in the proposed Tiebreak Method, is necessary and appropriate in its current form but will require additional review as the capability of WEMDE improves. Ultimately the Tiebreak Method should be determined by a dynamic, cost minimisation formula that is technology agnostic and included within the co-optimisation of Energy and ESS. However SSCP acknowledges that the proposed method, whilst not the desired method, is the most practical given the current constraints of WEMDE.

SSCP urges continued investigation into how WEMDE and this methodology can be improved as technologies, and their costs, change over time. This will ensure that the proposed method does not become outdated and inefficient.

Should EPWA wish to discuss any of these points further, please contact Bobby Ditric

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Yours Sincerely,

Bobby Ditric

Executive General Manger – Trading, Commercial and Regulatory