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FCESS COST REVIEW – EXPOSURE DRAFT PROPOSED WHOLESALE ELECTRICITY MARKET (WEM) AMENDING RULES

Synergy welcomes the opportunity to provide feedback on Energy Policy WA's (EPWA's) *FCESS Cost Review Exposure Draft – Proposed Wholesale Electricity Market (WEM) Amending Rules (FCESS Draft Rules)*. The FCESS Draft Rules set out proposed amendments to the Wholesale Electricity Market (WEM) Rules following EPWA's review of the outcomes observed in the Frequency Co-optimised Essential System Services (FCESS) markets in the WEM since the start of the new WEM on 1 October 2023. Synergy's key concern with the FCESS Draft Rules is in relation to changes proposed to the Market Power Mitigation Framework. The high-level concerns are provided below, with further detailed comments on the FCESS Draft Rules outlined in the attached table.

Market Power Mitigation Framework Pricing Provisions

Synergy considers that certain amendments outlined in the FCESS Draft Rules result in a material change to the Market Power Mitigation Framework, in particular the circumstances in which a Market Participant's offer prices can be found to be in breach of the WEM Rules.

At a high level, under the current WEM Rules, Synergy understands that a Market Participant's offers are only in breach when its offer prices are inconsistent with the profit-maximising offer prices that would have been offered by a Market Participant without market power. Importantly, the current provision (existing clause 2.16A.1) is drafted so as to refer to the offers that such a hypothetical Market Participant would have made ex-ante (ie. at the time the offer was made). This inherently means the offer price must be the same as the "estimated" offer price that the hypothetical Market Participant would have offered.

Synergy understands that under the current WEM Rules, a Market Participant:

1. is not in breach if the Market Participant had market power at the relevant time and its offers are not inconsistent with profit-maximising offers that a Market Participant without market power would make ; and
2. cannot be found in breach if its offers are consistent with the Offer Construction Guideline (OCG) and/or its efficient variable costs (EVC).

In this way, the OCG effectively provides a "safe harbour" for offers to be "effectively" compliant that are consistent with the requirements set out in the OCG.

The proposed FCESS Draft Rules affect this in two material ways:

1. The new legal test for whether a breach has occurred is drafted as only taking into account the actual EVC of the Facility at the relevant time. That is to say, the FCESS Draft Rules appear to require Market Participants to price its offers at or below one true number (the ex-post actual EVC) rather than at an estimate of the EVC (for which there might be more than one reasonable view), where this is estimated at the time the offer was made. Synergy understands that EVC depends on a number of factors that will only crystallise in real time. A Market Participant's price offers can only include an "estimate" of the EVC. The proposed new rule seems to require that ex-ante offers be at (or below) a price that is only able to be determined ex-post. On the assumption that such an outcome is unintended (as the test would be impossible to comply with), Synergy has suggested an amendment to the definition of "Economic Price Offer" in the attached table that we consider resolves this issue; and.
2. A Market Participant will only not be in breach if its offer prices are at or below the EVC. This test is substantially narrower than the current requirement that offer prices must not be inconsistent with the profit-maximising offers that would have been made by a Market Participant without market power. Further, given the issues outlined above under item 1, Synergy considers that the FCESS Draft Rules remove the current "safe harbour" provided by offering prices consistent with the OCG. Synergy recommends that the FCESS Draft Rules are reinstate the "safe harbour" offer provisions for offers consistent with the OCG.

The amendments outlined in the FCESS Draft Rules deliver fundamental changes to the trading obligations in the WEM. In acknowledging the magnitude of the changes, Synergy suggests that a WEM Market Trial period of at least two weeks should be provided as part of the implementation. This will allow Market Participants to fully operationalise, review and revise their trading, training and change management processes to best meet the new requirements.

Synergy thanks EPWA for their work to date on the WEM reform programs and looks forward to EPWA's continued consultation on market reform matters.

Yours sincerely



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EXECUTIVE GENERAL MANAGER WHOLESALE (ACTING)

ATTACHMENT

Comments on Part 2: Amending Rules to commence at 8:00AM on 20 November 2024

Synergy's Comments on Part 2 of the FCESS Draft Rules				
#	Rule ref.	Classification	Issue	Suggestion
1	2.16B.1	Moderate	Synergy considers that the Portfolio assessment undertaken under subitem (a)iv needs to consider the level of control for shared trading desks and does not consider that a service only arrangement, where there is no element of control, should not be captured under this test. If these arrangements are captured, it could lead to unintended consequences and create barriers for smaller Market Participants. Synergy proposes that the clause is amended to address this concern.	2.16B.1(a). (a) ... iv. Registered Facilities which are registered to a Market Participant, or wholly or partly owned by a Market Participant, or wholly or partly controlled by a Market Participant or another entity, including by way of a shared trading desk (excluding arrangements that do not allow for one party to control the behaviour of another), must be allocated to the same Portfolio; and ...
2	2.16C.6A	Major	<p>As discussed in the main body of the submission Synergy considers that the proposed amendments as outlined in the FCESS Draft Rules result in fundamental changes to the Market Power Mitigation framework within the WEM Rules.</p> <p>Firstly, Synergy considers that it is unreasonable to place ex-post offer obligations on Market Participants and considers that this is an unintended outcome of the proposed drafting. Synergy proposes alternative drafting to address this key issue.</p> <p>Secondly, Synergy considers that Market Participants offers that are consistent with the Offer Construction Guideline should be considered compliant with the WEM Rules. Synergy proposed new clause 2.16C.6AA to address this concern.</p>	2.16C.6A. An Economic Price Offer is an offer which is not greater than a reasonable estimate of the sum of all efficient variable costs for the provision of the relevant Market Service, including all costs incurred under long-term take-or-pay fuel contracts. 2.16C.6AA. (new) A offer consistent with the Offer Construction Guideline will not be considered in breach of clause 2.16C.5.

Synergy's Comments on Part 2 of the FCESS Draft Rules

#	Rule ref.	Classification	Issue	Suggestion
3	2.16E.1.	Moderate	<p>Synergy understands that the underlying intent of the original clause is to provide guidance to both the ERA and Market Participants as to application of the ERA's compliance monitoring and enforcement. Synergy considers that the WEM Rules should continue to provide guidance on the application of the ERA's compliance monitoring and suggests that clause is reinstated.</p> <p>If EPWA considers that the removal of the clause is necessary, Synergy requests that clarity is provided to Market Participants for the suggested removal. Synergy notes that the proposed removal of clause 2.16E.1 was not discussed at the TDOWG Meeting on 20 August 2024, and there is no Explanatory Note within the FCESS Draft Rules outlining the reasoning for the removal of the clause. Further, a replacement clause should be implemented that outlines the boundaries of the ERA's compliance and enforcement.</p>	<p><u>2.16E.1.</u> [Blank] Subject to clauses 2.16C.6 and 2.16C.7, the Economic Regulation Authority must not, in respect of a price offer described in clause 2.16C.4, investigate a Market Participant under clause 2.13.27, or take enforcement action under clause 2.13.36 for a breach of clause 2.16A.1, where the Economic Regulation Authority has determined under clause 2.16C.7 that an Irregular Price Offer by the Market Participant has not resulted in an inefficient market outcome.</p>

Synergy's Comments on Part 2 of the FCESS Draft Rules

#	Rule ref.	Classification	Issue	Suggestion
4	7.4.2C.	Major	<p>Synergy understands that the policy intent of the newly proposed clause 7.4.2C (along with the amendments to the definition of the Reference Scenario under clause 7.8.5) is to provide clarity to Market Participants on the requirements for amending their offers from “Available” to “In-Service”. However, Synergy considers that the drafting as presented places unintended commitment obligations on slower start facilities and creates the perverse outcome whereby Market Participants are forced to commit slower start facilities, irrespective of whether a reasonable expectation of recovering efficient variable costs is held.</p> <p>For illustration purposes, consider the following example with two facilities. One with a long Start Decision Cutoff Time (SDCT), high start costs and relatively low fuel costs (an out of service coal unit, for example) and the other with a short SDCT, low start costs and relatively high fuel costs (an out of service open cycle gas turbine, for example), in a relatively common scenario: deciding whether to commit to meet peak load at some future time.</p> <p>In the event of a shortfall forecast in pre-dispatch at the coal unit’s SDCT, the owner would have to offer the unit In-Service and commit to incurring the cost of a start. The owner of the gas turbine is under no obligation to consider whether it will commit until its own, much later, SDCT.</p> <p>In situations where the gas turbine can meet the peak demand at lower total variable cost – as is often the case – the coal unit now faces a dilemma, both horns of which result in it incurring a loss. It can make the commitment decision and continue to price to recover its full average variable cost but is likely to be beaten for dispatch by the gas turbine due to its high start costs relative to the short peak demand period. Or it could, provided the ERA Offer Construction Guideline permits, price to treat its start costs as sunk and remain in merit, but fail to ever recover those costs in the event it was marginal.</p> <p>Synergy considers that the commitment obligation utilising the amended Reference Scenario definition should be undertaken at a more appropriate time point. Synergy considers that four hours is a more appropriate horizon, and should provide AEMO with sufficient planning certainty while minimising unintended consequences for Market Participants.</p>	<p><u>7.4.2C.</u> Subject to clause 7.4.2D, if:</p> <ul style="list-style-type: none"> (a) a Market Participant offers capacity as Available Capacity in its Real-Time Market Submissions for energy for a Dispatch Interval. (b) the Reference Scenario for the Dispatch Interval in the last Pre-Dispatch Schedule or Dispatch Schedule provided to the Market Participant before the relevant Start Decision Cutoff predicts a real-time shortfall in energy, Contingency Reserve Raise or Regulation Raise for a Dispatch Interval commencing within four hours from the Primary Dispatch Interval; and (c) the shortfall identified under clause 7.4.2C(b) relates to a lack of energy In-Service Capacity in the Dispatch Interval. <p>then the Market Participant must as soon as practicable, update its Real-Time Market Submissions for the Dispatch Interval to convert the Available Capacity to In-Service Capacity to alleviate the predicted shortfall.</p>

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#	Rule ref.	Classification	Issue	Suggestion
5	7.4.2C.	Moderate	<p>With respect to clause 7.4.2C., Synergy also seeks clarity as to how Market Participants should manage their offer obligations across the multiple markets (energy and FCESS) noting that the offers need to account for the differing operating states of a Facility.</p> <p>A Facility may have operating states that maximise the Facility's energy output but limits the provision of FCESS. Synergy notes that this energy vs FCESS conflict currently applies to the majority of Synergy's open cycle gas turbine fleet and Muja facilities.</p> <p>If a Facility is In-Service for the provision of FCESS which reduces the possible energy output (enforced by AEMO's WEM Dispatch Engine by way of its FCESS accreditation range and enablement trapezia), and the Reference Scenario predicts shortfalls for both energy and Contingency Raise and/or Regulation Raise, is the Market Participant required to amend the offers for its Facility to provide additional energy in preference to the In-Service FCESS?</p> <p>Further, Synergy notes that similar conflicts can occur for Facility provision of Regulation or Contingency services. Where shortfalls exist in both Regulation and Contingency markets, is the Market Participant required to amend its offers for its Facility so that the Facility provides additional Regulation FCESS in preference to In-service Contingency FCESS?</p> <p>Synergy suggests further refinements are required in the FCESS Draft Rules to provide Market Participants with clarity in these circumstances, and what energy or FCESS provision should be prioritised when shortfalls are predicted in more than one market.</p>	
6	7.4.5A	Moderate	<p>For completeness, Synergy requests that obligation to offer RoCoF quantities be expressly consistent with Facility FCESS Accreditation and proposes drafting to address this issue.</p>	<p><u>7.4.5A.</u> Subject to clause 7.4.5AA, a Market Participant must, in respect of each of its Facilities accredited for RoCoF Control Service, ensure that for each Dispatch Interval the quantity offered in the Real-Time Market Submission for RoCoF Control Service is the largest quantity of RoCoF Control Service that is capable of being provided by the Facility in the Dispatch Interval.</p> <p><u>7.4.5AA.</u> Clause 7.4.5A does not require a Market Participant to offer each of its Facilities in a manner that is inconsistent with the FCESS Accreditation of the Facility.</p>

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#	Rule ref.	Classification	Issue	Suggestion
7	7.4.6	Typographical	Consider that sub items of clause 7.4.6 were accidentally left in error, and suggest the complete clause is deleted.	<p><u>7.4.6.</u> [Blank] (a) present the relevant Essential System Service Enablement Quantity as In-Service Capacity; or (b) present the relevant Essential System Service Enablement Quantity such that the Registered Facility is not enabled for RoCoF Control Service in the Reference Scenario for the relevant Pre-Dispatch Interval or Dispatch Interval.</p>
8	7.5.15.	Moderate	<p>Synergy is of the understanding that the proposed implementation of clause 7.5.15 is to introduce a tiebreaking arrangement in a timely manner that minimises costs to the market. However, Synergy considers that the proposed approach may not lead to a least cost solution for the market.</p> <p>Synergy notes that the proposed solution seeks to minimise Uplift Payments via a heuristic method and may at times lead to an over-allocation of FCESS to Facilities with enablement limits that are less than or equal to zero MW (predominantly batteries). This occurs regardless of the energy price offers for a Facility (battery), and even when an alternate FCESS Accredited Facility (predominantly gas turbines) is available and in-merit. In these circumstances, total system costs may not be minimised, and the proposed solution may create unintended opportunity costs for batteries in future intervals.</p> <p>Synergy suggests that EPWA further revises the FCESS Draft Rules to address this concern and ensure the objective function seeks to minimise total system costs, including opportunity costs.</p>	
9	7.7.8A	Clarification	<p>Synergy is of the understanding that the newly proposed clause 7.7.8A is intended to allow for Energy Uplift Payments to be provided in limited situations and is a short-term solution, noting that a further review of the RoCoF service is planned to be undertaken.</p> <p>Synergy seeks clarity as to the likely timeframe, consultation process and implementation of the future review work. Synergy suggests that AEMO and EPWA should be cognisant of the potential implementation and any required system changes and the time impacts on Market Participants in undertaking this further review.</p>	

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10	7.8.5B	Typographical	Suggested drafting edits to improve readability of the clause.	<p><u>7.8.5B.</u></p> <p>AEMO must use the same inputs and assumptions for an Available Capacity Scenario for a Week-Ahead Schedule, Pre-Dispatch Schedule or Dispatch Schedule as for the corresponding Reference Scenario, except that for the Available Capacity Scenario it must include the any Available Capacity for each relevant Facility from the in relevant Real-Time Market Submissions for Facilities for which the relevant Start Decision Cutoff has not yet passed.</p>
11	7.8.5B, 7.8.6 and 7.8.6A	Clarification	<p>Synergy seeks clarity if an Available Capacity Scenario is still to be provided for the Pre-Dispatch horizon noting that 7.8.6A indicates that Pre-Dispatch Scenarios are solely for the Reference Scenario (being In-Service Capacity), whereas 7.8.5B states that an Available Capacity scenario will be completed for the Pre-Dispatch Schedule.</p> <p>Synergy considers that an Available Capacity Scenario is required for the Pre-Dispatch Schedule as Not In-Service Refunds are calculated using the Available Capacity Scenario.</p>	
12	7.17.2.	Major	<p>Synergy considers that the proposed drafting to estimate the Real-Time Market dispatch cost is in error. Market Participants form their FCESS offers based on the FCESS Enablement Quantity of their Facility, rather than the Facility Contributing quantity, and therefore the estimated cost should not be discounted for Facility Performance Factors.</p> <p>Synergy's proposed amendments ensure that a Market Participant is adequately compensated for all efficient variable costs associated with the provision of FCESS for their Facility.</p>	<p><u>7.17.2.</u></p> <p>...</p> $RTMDispatchCost(f,DI)$ $= \left(\sum_{epq \in EnergyOffer(f,DI)} (ClearedEnergyQty(f, DI, epq)) \right. \\ \times EnergyPrice(f, DI, epq)) \\ + \sum_{m \in FCESS} \sum_{fpq \in FCESSOffer(m,f,DI)} (ClearedQty(m, f, DI, fpq) \\ \times FCESSPrice(m, f, DI, fpq) \times PF(m, f, DI)) \left. \right) \times \frac{5}{60}$ <p>...</p>

Synergy's Comments on Part 2 of the FCESS Draft Rules

#	Rule ref.	Classification	Issue	Suggestion
13	9.9.10.	Moderate	<p>Synergy is of the understanding that amendments within Section 9.9 of the FCESS Draft Rules result in the price being set using the highest price of the price quantity pairs offered as “In-Service”.</p> <p>With the change to the eligibility for Uplift Payments for RoCoF, and also considering the AEMO can direct facilities to come on-line at short notice, there is likely to be circumstances that arise where the highest priced “In-Service” pair in the Market Participants bids does not reflect the actual output of the facility.</p> <p>Synergy considers that either:</p> <ul style="list-style-type: none"> • AEMO has to issue the directions within a reasonable timeframe that allows for Market Participants to update the In-Service quantity in their offers, or • for settlement purposes AEMO utilises Facility ‘Available’ offers for the quantity of energy actually dispatched. 	<p>XX.YY.ZZ. (new clause to be inserted in relevant section)</p> <p>When a Facility is directed into service by AEMO for the provision of RoCoF with insufficient notice for the Market Participant to re-offer, for settlement purposes AEMO utilises Facility ‘Available’ offers for the quantity of energy actually dispatched.</p>
14	9.10.3D.	Major	<p>As per item 12, the settlement calculations for the Real-Time Market dispatch cost should not be discounted for Facility Performance Factor to ensure that Market Participants are adequately compensated for all efficient variable costs associated with the provision of FCESS for their Facility.</p> <p>Synergy’s proposed drafting addresses this concern.</p>	<p>9.10.3D.</p> <p>...</p> $RTMDispatchCost(f,DI)$ $= \left(\sum_{epq \in EnergyOffer(f,DI)} (ClearedEnergyQty(f, DI, epq)) \right.$ $\times EnergyPrice(f, DI, epq))$ $+ \sum_{m \in FCESS} \sum_{fpq \in FCESSOffer(m,f,DI)} (ClearedQty(m, f, DI, fpq)$ $\times FCESSPrice(m, f, DI, fpq) \times PF(m, f, DI)) \times \frac{5}{60}$ <p>...</p>
15	Glossary	Typographical	<p>Suggest the definition of Rolling Test Window is amended to use the already defined term Trading Month for ease of reading.</p>	<p>Rolling Test Window: A rolling period of three-consecutive three-month-period-of Trading MonthsDays, commencing at the start of 8:00-AM on the first Trading Dayday of a Trading Monthmonth and ending at the end of 8:00-AM on the first last Trading Day day of a Trading Month-month.-A Rolling Test Window does not overlap with any other Rolling Test Window with a new Rolling Test Window commencing immediately after the end-of-the-preceding-Rolling-Test-Window previous one ends, with no overlap between.</p>