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Economic Regulation Authority
Albert Facey House
Level 4, 469 Wellington Street
Perth WA 6000

Submitted via the portal on the ERA's website

Draft Balancing Submission Guideline

ERM Power Limited (ERM) welcomes the opportunity to provide comment and feedback on the Economic Regulation Authority's (ERA) draft Balancing Submission Guideline. It is positive that the ERA is trying to provide guidance around making balancing offers that are in compliance with Market Rule 7A.2.17, which in itself is vague and potentially controversial. ERM provides some comment below and hopes that these will assist the ERA in finalising the guideline.

About ERM Power

ERM Power Limited (ERM Power) is a listed Australian energy company (EPW) operating electricity sales, generation and energy solutions businesses. The company has grown to become the second largest electricity provider to commercial businesses and industrials in Australia by load, with operations in every state and the Australian Capital Territory. A growing range of energy solutions products and services, including lighting and energy efficiency software and data analytics, are being delivered to the company's existing and new customer base. ERM Power also sells electricity in several markets in the United States. The company operates 497 megawatts of low emission, gas-fired peaking power stations in Western Australia and Queensland. It is the only retailer in Australia to operate in every state.

Interpretation of Undefined Terms in Market Rule 7A.2.17

The ERA has offered interpretation of what constitutes "market power" as generally, the ability to "influence price and benefit financially". The ERA also notes that market power may come about when "a Market Participant withholds energy from the market". Together, this suggests that should a Market Participant wish to reduce its output to conserve fuel or to manage wear on equipment, they may be exercising market power inadvertently. By means of example, a generator may require more expensive fuel or transport if they were to continue generating at full load and this may make their operation uneconomic, unless they reduce output.

In addition, the ERA notes that due to inelastic demand, "withholding usually results in an increase in price", suggesting that any reduction in bid output would constitute market power. However, in any interval, there is a risk that other Market Participants may change their bid, to either increase or decrease their bid output and prices. At times, this risk may be sufficiently great, that a Market Participant who had previously considered its bid to be economic may have a change in its reasonable expectations and

wish to withdraw the low priced quantities from its bid. The Market Participant would be doing so on the basis of avoiding a potentially uneconomic dispatch rather than to increase market prices, despite this potentially favouring other facilities.

ERM contends that “market power” is better defined more simply using a part of the ERA’s notes that state “[a]n entity with market power can usually operate with little or no constraint from competitors, suppliers, customers or new entry”. This captures the essence of the “power” aspect, being that a Market Participant could reduce/increase the market price of its own choosing despite the bids of other generators. The addition of withholding quantities in the definition adds unnecessary complexity as this situation would not always be “market power” for the reasons set out above, and is already contemplated by the ERA’s overarching statement regarding “market power”.

Bidding at Short Run Marginal Cost and Dispatch

There are a number of factors that a generator has to consider when making an offer into the balancing market. ERM appreciates the guidance provided by the ERA in defining the use of Average Variable Cost (AVC) in determining the price a Market Participant offers into the balancing market. However, there are various risks that the ERA’s interpretation of AVC does not take into account which can impact a Market Participants’ position quite significantly.

In particular, the risk of Forced Outage must be considered. The WEM has a capacity market which encourages generators to be available to the market. When generators are dispatched, there is always a risk that it could be forced off and therefore have to purchase energy in the balancing market in order to meet a bilateral obligation while also being required to pay capacity refunds. This is a risk that market generators currently bear however the ERA does not consider this in its thinking.

Secondly, there is forecasting risk that must be considered. Due to load forecast changes and changes in other Market Participant behaviour, the dispatch of a generating unit can quickly change from being profitable to uneconomic dispatch. The variability in load forecast has been evident in recent times and is likely to increase with further penetration of rooftop solar and large-scale renewables.

Dispatch in the WEM is further complicated with a two hour balancing gate horizon. Decisions made in terms of balancing offers may render Market Participants with an uneconomic outcome two hours later resulting in Market Participants having to withdraw offers from the market. As indicated above, the ERA’s interpretation of ‘Market Power’ which includes the withholding of capacity may inadvertently capture these Market Participants.

In summary, the ERA’s draft Balancing Submission Guidelines provides some clarity to Market Participants when making balancing offers but the ERA needs to allow for market risk considerations in making those balancing offers.

Please don’t hesitate to contact me at wng@ermpower.com.au or on 08 6318 6416 if you would like to discuss any of ERM’s views outlined in this submission.

Yours sincerely



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