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Economic Regulation Authority

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MINIMUM STEM PRICE REVIEW 2021

Alinta Energy appreciates the opportunity to provide feedback on the ERA's *Minimum STEM Price Review 2021 – Issues Paper and Preliminary Findings*.

Alinta Energy notes that the WEM Rules require the ERA to consider the criteria in 6.20.14 to determine whether the Minimum STEM is appropriate. 6.20.15 states that the ERA must not revise the Minimum STEM Price if it considers Minimum STEM Price is appropriate in accordance with these criteria.

These criteria are whether, during the review period¹:

- 1) The market cleared at the Minimum STEM Price because it was too high.
- 2) AEMO reduced facilities' dispatch below the quantities that were forecast to clear at the Minimum STEM Price because the price was too high.
- 3) There were changes in the generation fleet that render the Minimum STEM Price too high or too low.

The ERA is also required to consider whether any stakeholders requested a review of the price.

In summary, Alinta Energy supports the ERA's preliminary assessments against these criteria and considers the STEM price is appropriate because:

- 1) The market cleared at the Minimum STEM price infrequently – only nine times during the review period. Additionally, in eight of these nine intervals, demand was over-forecast, meaning generators may have amended their offers and minimum price events may have been even less frequent if not for the forecast error. This also suggests that over forecasting, rather than the price being too high, was the main reason for the market clearing at the minimum.
- 2) When the market cleared at the minimum, the instances of generators being dispatched for lower than forecast in the forecast BMO were caused by demand being over-forecasted and not because too many generators were tied at the floor.
- 3) Although 622MW of renewable generation entered during the review period and may have increased some generators' cycling costs; Alinta Energy would expect to observe minimum prices occurring more often if these increased cycling costs had rendered the price too high.

¹ Between 1 October 2019 to 31 January 2021

Issues paper questions and Alinta Energy's responses.

1. *Do stakeholders consider that the current minimum STEM price meets the objectives:*

- *To allow the balancing market to clear above the minimum STEM price in most circumstances?*
- *To limit market participants' exposure to balancing prices that would threaten their financial viability?*

Yes, Alinta Energy considers that the current Minimum STEM Price allows the balancing market to clear above this price in most circumstances. As outlined by the ERA's analysis, during the review period, prices cleared at the minimum in only nine trading intervals, meaning prices cleared above the minimum 99.96% per cent of the time.

Additionally, in eight of these nine intervals, prices cleared at the minimum after demand was over-forecasted. This means generators may have adjusted their offers and minimum price events may have been even less frequent, but for forecast error.

Given the infrequency at which prices cleared at the minimum, Alinta Energy considers that the current price does not threaten participants' financial viability. It is not reasonable that prices reaching the minimum for nine intervals would impact a participant's solvency.

2. *How significant were AEMO's demand forecasts in participants' bidding decisions for the nine trading intervals when the market cleared at the minimum STEM price?*

Alinta Energy considers that AEMO's demand forecasts are generally crucial in informing participants' commitment decisions and are therefore likely to have strongly influenced bidding decisions in these nine trading intervals.

3. *Do stakeholders agree with the ERA's observations that factors other than the level of the minimum STEM price, including over-forecasting of demand and quantities for ancillary services and commissioning, led to the balancing market clearing at the floor price for the nine trading intervals during the review period? If stakeholders disagree, please provide reasons*

Alinta Energy agrees that factors other than the level of the Minimum STEM Price led to the market clearing at the floor price for the nine trading intervals during the review period. Of the factors suggested by the ERA, Alinta Energy considers that over-forecasting demand is the most influential in causing the market to clear at the minimum. Alinta Energy notes that commissioning tests are less likely to contribute minimum price events in future because it is generally no longer feasible from a system security perspective to conduct commissioning tests during low demand periods.

4. *Do stakeholders agree with the ERA's preliminary findings that AEMO did not dispatch any generators down during the review period because the minimum STEM price was too high? If stakeholders disagree, please provide reasons and evidence*

Alinta Energy agrees that AEMO did not dispatch any generators down during the review period because the minimum STEM price was too high. As outlined in the issues paper, although generators were dispatched for amounts lower than the those in the forecast BMO in seven of the nine minimum price trading intervals; in six of these intervals, falling demand (and not too many generators tied at the minimum) led to generators' dispatch being reduced below the forecast. Additionally, in the remaining interval of the seven intervals, the DI reducing the generator below forecast was replaced by a DI during the interval that increased the generator's above the forecast. This suggests that again, changes in demand forecasts and not too many generators being tied, led to the generator being initially

reduced below its forecast DI.

5. *Do stakeholders agree with the ERA's interpretation of this criterion [whether there changes in the generation fleet that might result in the minimum price being too high or too low] and support the ERA's method of assessment? If stakeholders disagree, please provide reasons.*

Alinta Energy agrees with the ERA's view there has not been a material change in the generation fleet that is likely to mean the Minimum STEM Price is too high or too low. While Alinta Energy recognises that the entrance of 622MW of renewable generation may increase the cycling and decommitment costs of some generators, it would expect to observe minimum prices occurring more often, if these increased cycling costs had rendered the price too high.

Yours sincerely



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