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Economic Regulation Authority
Level 4, Albert Facey House
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Attn: Adrian Theseira

Emailed via: publicsubmissions@erawa.com.au

March 2021

Dear Mr. Theseira

RESPONSE TO ISSUES PAPER – MINIMUM STEM PRICE REVIEW 2021

NewGen Power Kwinana (NPK) welcomes the opportunity to provide comments on "Minimum STEM Price Review 2021" (Issues Paper), released by the Economic Regulation Authority (Authority) on 4 March 2021.

NPK offers the below observations for consideration by the Authority.

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

The WEM has seen an exponential increase in the quantity of large-scale and small-scale renewable generation connecting to the SWIS, along with the emergence of other new energy technologies. With behind the meter solar reducing grid-facing demand in the middle of the day and low-cost grid-connected, but non-schedulable (i.e. variable), solar and wind generation displacing thermal generation, wholesale prices have become more volatile. This is most prominent with the increasing incidence of negative price intervals.

NPK considers that the minimum STEM price in its current magnitude poses the risk of significant exposure to Balancing Prices and is therefore not meeting stated objective (2) in the Issues Paper. The minimum STEM price of -$1000/MWh is arbitrary in nature and the perverse outcomes arising from this price is likely to be substantial for generators. Due to the extended Balancing Gate Closure and LFAS Gate Closure in the WEM, forecasting errors present a challenge for generators de-commitment decisions with regards to the price floor. The gate closures and forecasting errors inhibits the ability for Generators to respond to minimum STEM pricing events.

Establishing a minimum STEM price that is higher than the current value will reduce the significant price risk associated with providing Ancillary Services as well as energy during low demand periods. The reduction in perceived risk from reduced exposure to the price floor should minimise the long-term cost of electricity supplied to customers through lower risk premiums from generators providing Ancillary Services and Energy.

Question 2: Significance of AEMO's Demand forecasts:

AEMO's demand and pricing forecasts play a significant role in NPK's bidding decisions. NPK utilises this information prior to gate closure, to optimise NPK's dispatch. These forecasts ultimately assist NPK in forming the decision to commit or de-commit during times of low pricing and relative low demand.

As highlighted in the issues paper, the Authority observed that for almost all instances where the Balancing Market cleared at the minimum STEM price between October 2019 and September 2020, the demand forecasts did not reflect the Balancing Price would settle at this price. The price forecast did not provide

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accurate signals to generators at the time of gate closure, which would have contributed to prices settling at the minimum STEM price.

Question 3: Factors other than the level of the minimum STEM price led to the Balancing Market clearing at the floor price:

NPK agrees with the Authorities observations that factors other than the level of the minimum STEM price led to the Balancing Market clearing at the floor price. As stated previously, NPK considers that forecasting inaccuracies led to bidding behaviour by generators that was not consistent with the final clearing price in the majority of the intervals in question.

This is further highlighted in the Issues Paper by the fact that any interval where the Balancing Price was forecasted to be -$1000/MWh, actually cleared at a price higher than the floor. This suggests that when generators are given the time to respond to pricing signals, they will take necessary steps to reduce excess generation in the market, ultimately creating the most efficient and equitable market outcome.

Question 4: Do participants agree with the ERA's preliminary findings?

NPK agrees with the Authorities preliminary findings that AEMO did not dispatch any generators down due to the minimum STEM price being too high. NPK highlights that generators have to date, priced minimal quantities, if any, between -$250/MWh and -$999/MWh. Therefore, any increase in the minimum STEM price up to -$250/MWh would have very little tangible impact on generators bidding behaviours, still allowing generators with an opportunity to differentiate de-commitment pricing, whilst significantly reducing the exposure risk associated with higher price floor.

Question 6: Do participants consider the minimum STEM price to be appropriate?

NPK considers the current minimum STEM price at -$1000/MWh to be arbitrary and inappropriate due to the issues raised in this paper. NPK suggests that any increase in the price floor up to -$250/MWh will reduce the risk exposure faced by scheduled generators whilst not impacting bidding behaviour.

If the minimum STEM price is not addressed, price forecasting issues and the expectation that minimum STEM price events are going to continue increase in frequency, this risk would be expected to be reflected in Ancillary Services behaviour. This could present a risk that insufficient Ancillary Services are available via the market mechanism and could lead to reliability issues for the WEM.

Should you have any questions regarding this submission please contact Dimitri Lorenzo on 08 9261 2826 or dimitri.lorenzo@sscpower.com.au.

Yours sincerely,

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