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Economic Regulation Authority
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Dear Sara

ENERGY PRICE LIMITS REVIEW 2021

Synergy welcomes the opportunity to comment on the draft report for the Energy Price Limits (**EPL**) review 2021 (**Draft Report**), which outlines the Economic Regulation Authority's (**ERA**'s) estimate of the revised values of the maximum Short-term Energy Market (**STEM**) price and the alternative maximum STEM price.

As noted in the Executive Summary of the Draft Report, responsibility for the annual review and determination of the EPL was transferred from the Australian Energy Market Operator (**AEMO**) to the ERA on 1 July 2021.

When compared to previous years, the ERA has employed different methodologies and assumptions to arrive at its draft proposal and has used its powers under the WEM Rules and the *Economic Regulation Authority Act 2003* to obtain information from market participants that was not previously utilised in prior energy price limit reviews. These changes have culminated in the ERA's draft determination that the gas turbines at Parkeston Power Station (**Parkeston units**), as opposed to the gas turbines at Pinjar Power Station (**Pinjar units**), are the highest cost 40MW open cycle gas generators in the South West Interconnected System (**SWIS**).

The Parkeston units have accordingly set the proposed 2021 EPL values of:

- \$290/MWh for the maximum STEM price; and
- \$652/MWh for the alternative maximum STEM price.

The Draft Report describes how the ERA has arrived at these proposed revised values and provides details of how it determined the underlying variables used in calculating these price limits. Synergy considers there are potential flaws with these calculations and explanations and submits the following key issues:

- (a) the methodology used to derive the undelivered gas price for the Parkeston units appears inconsistent with that used for the Pinjar units;

- (b) the rationale used to explain the variance observed for Pinjar's mean variable operating and maintenance (VOM) costs is incorrect; and
- (c) the methodology used to derive VOM costs is a matter currently before the Energy Review Board (ERB) and Synergy disputes the ERA's assertion that it failed to provide certain historical maintenance information requested by the ERA.

Issue (a): the methodology used to derive the undelivered gas price for the Parkeston units appears inconsistent with that used for the Pinjar units.

The mean fuel cost is a critical input in the determination of energy price limits and comprises the Undelivered gas price forecast (\$/GJ) and Transmission cost (\$/GJ). Synergy considers that the underlying methodology to determine the Undelivered gas price forecast should be consistent, irrespective of the reference unit. It is not evident, however, that this is the case.

In addition, the ERA commentary in the report on the methodology is at odds with Synergy's understanding of what ERA has actually done. Synergy can explain this further confidentially.

Issue (b): the rationale used to explain the variance observed for Pinjar's mean variable operating and maintenance (VOM) costs is incorrect.

Throughout the Draft Report, the \$70.3/MWh variance between the 2020 determination of the Pinjar units' mean VOM costs (\$110.5/MWh) and 2021 assessed value (\$40.2/MWh) has been attributed to the ERA having received "significantly lower maintenance and overhaul costs as provided by asset owner resulting in lower variable cost per start".

Synergy rejects this rationale as it is factually incorrect. Although Synergy, as the asset owner of the Pinjar units, did provide its estimate of VOM costs, Synergy notes it is explicitly stated under Appendix 2 of the Draft Report that "the ERA did not use Synergy's estimate of VOM costs for the Pinjar units" as "the ERA considers that Synergy did not use a reasonable method to estimate its VOM costs, which resulted in Synergy over-estimating its cost per start".

Synergy suggests that an alternative rationale to explain the variance in VOM costs could instead be that the ERA's assumed VOM costs are lower in comparison to the prior year.

Issue (c): the methodology used to derive VOM costs is a matter currently before the Energy Review Board (ERB) and Synergy disputes that it failed to provide requested historical maintenance information.

Appendix 2 of the Draft Report provides further detail on the reasoning behind not adopting Synergy's method to estimate its VOM costs. Synergy notes these comments raise similar issues to those before the ERB and Synergy will await the ERB's decision before providing further commentary.

Additionally, Synergy notes the ERA's statement that "despite the ERA's request, Synergy did not provide any information when the last major maintenance works (types A, B and C) were conducted". Synergy has always endeavoured to respond fully, and in a timely manner, to the ERA's requests for information. Synergy is not aware of an instance where the ERA has requested information and Synergy has not appropriately responded. Indeed, Synergy has reviewed its correspondence with the ERA relating to the Section 51 notice dated 2 August 2021 on the Energy Price Limits review and cannot identify where the ERA has sought historical major maintenance information from Synergy.

Should you require additional information regarding this submission, please contact me at andrew.everett@synergy.net.au.

Yours sincerely



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