



4 March 2022

Our Ref: CWF-20220304

Jenness Gardner
Chief Executive Officer
Economic Regulation Authority
Level 4, 469 Wellington Street
PERTH WA 6000

Attention: Adrian Theseira

Dear Ms Gardner

RE: SUBMISSION ON MINIMUM STEM PRICE REVIEW 2022

Thank you for the opportunity to provide input into the ERA's review of the Minimum STEM Price.

Collgar notes the objectives of the ERA's Minimum STEM Price Review 2021 Final Determination report,¹ were:

1. allow the balancing market to clear above the Minimum STEM Price in most circumstances; and
2. limit Market Participants' financial exposure to balancing prices that would threaten their financial viability.

Market data shows that the Final Balancing Price has been -\$1,000 on only nine circumstances since market start, and none of these occurred in 2021. This demonstrates that the first objective above is being met.²

However, in the 2021 review, stakeholders also noted that over-forecasting of demand was the most influential factor that led to the market clearing at the price floor. Given the uptake of volatile distributed energy resources and intermittent generators will continue to increase, it can be expected that forecasting accuracy will further decline and potentially contribute to more minimum-priced intervals.

Collgar considers the second objective is put at risk given several Market Participants with scheduled generators, primarily coal, have alluded to their decommitment cost being approximately

¹ <https://www.erawa.com.au/cproot/22170/2/Review-of-minimum-STEM-price---Final-Report---for-publication-clean-.PDF>

² Collgar notes however that the market may clear at -\$1,000 on more occasions, but the final balancing price may be greater than -\$1,000 due to the inclusion of LFAS up quantities. Given this data is not publicly available, Collgar suggests the ERA undertake analysis to determine whether the number of these instances was material.

\$250.³ The current market requires some of these generators, as LFAS providers, to bid at the price floor, which risks them paying to generate in certain intervals.

Generators generally do not bid between -\$250 and -\$1,000. The gap in bidding indicates that generators do not value having the option to bid within this range, but rather prefer to bid at or above their economic decommitment threshold (approximately -\$250) or at the floor for some regulatory (e.g. LFAS requirement) or commercial reason. This supports the arguments presented by several stakeholders submitting to the 2021 Minimum STEM Price Review that the current price is too low.

LFAS (Regulation) and other Ancillary (Essential System) Service providers will no longer be required to offer at the price floor in the new Wholesale Electricity Market (WEM) commencing from 1 October 2023. However, an unreasonably low price floor will still present risk to market participants.

The misalignment of the Dispatch and Trading Intervals will mean that the Reference Trading Price used for market settlement will be the average of the Market Clearing Price for each of the six five-minute Dispatch Intervals within a Trading Interval. This means that a low Market Clearing Price in one Dispatch Interval will expose Market Participants generating in other Dispatch Intervals (within the Trading Interval) to lower prices, even if they were not generating in the low-priced interval.

In addition, the future participation of large-scale storage in the WEM means that the Minimum STEM Price will become the price cap for storage charging from the network. It would be beneficial for the ERA to seek guidance from Energy Policy WA on the market power mitigation framework to ensure that the ERA's consideration of the Minimum STEM Price is consistent with that policy. The ERA may need to amend, or add to, its Minimum STEM Price objectives to reflect any new market power mitigation arrangements and provide the right settings for private sector investment and efficient market operation.

The timing of the implementation of the Minimum STEM Price arising from this review has not been specified.

- If it is to be implemented for the current WEM, the ERA may want to consider whether a Minimum STEM Price of -\$1,000 presents a risk to the financial viability of existing LFAS providers. However, this risk appears to be low given there have been only nine instances of the Minimum STEM Price occurring and it may not be worth investing time and resources given these bidding requirements cease on 1 October 2023.
- If it is to be implemented for the new WEM, the ERA ought to consider:
 - if the frequency of minimum-priced intervals will increase due to changing market dynamics;
 - how Market Participants will be exposed to the Minimum STEM Price through the Reference Trading Price, even if they are not generating in a low-priced interval; and
 - the Minimum STEM Price in the context of storage facilities and the future market power mitigation framework.

³ <https://www.erawa.com.au/cproot/22041/2/WEM-Rules-Review-of-Minimum-STEM-Price-or-price-Draft-Determination-Report---for-approval---Clean-for-Publication.PDF> pages 8-9 and submissions to the issues paper.

Pre-emptively addressing issues relating to the Minimum STEM Price that are expected to emerge in the new WEM will provide a foundation to best achieve the WEM and Minimum STEM Price objectives.

Collgar is available to discuss the above in more detail if required.

Yours sincerely



REBECCA WHITE

REGULATORY AND TRADING MANAGER