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Mr Adrian Theseira
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Dear Mr Theseira

Minimum STEM Price review 2022

Synergy welcomes the opportunity to provide its views to inform the Economic Regulation Authority's (ERA) 2022 review of the Minimum Short Term Energy Market Price (MSP).

Clause 6.20.13 of the Wholesale Electricity Market (WEM) Rules requires that the ERA:

- (a) Annually review the value of the Minimum STEM Price to determine whether it is appropriate under clause 6.20.14;
- (b) If not appropriate, subject to clause 6.20.16, determine a new value of the Minimum STEM Price in accordance with clauses 6.20.17 to 6.20.20; and
- (c) Determination of the new Minimum STEM Price value in accordance with 6.20.17 to 6.20.20 must be subject to matters 6.20.16.

When considering the matters required by clause 6.20.14 the ERA should note its obligations under 6.20.16.

Clause 6.20.16.

The Minimum STEM Price must:

- (a) allow clearance of the Balancing Market without the Balancing Price being equal to the Minimum STEM Price in most circumstances; and*
- (b) subject to clause 6.20.16(a), limit Market Participants' exposure to Balancing Prices that would threaten the financial viability of a prudent Market Participant.*

Synergy's response to each of the matters under 6.20.14 bear in mind 6.20.16 which is designed to ensure that the ERA does not set an unnecessarily low MSP. Under clause 6.20.14, the ERA must consider the following subclauses and Synergy's response is separated under each clause as such.

Clause 6.20.14.

In determining whether the MSP is appropriate under clause 6.20.13(a), subject to clause 1.35.2, the Economic Regulation Authority must consider without limitation, if since the last annual review of the MSP under clause 6.20.13:

- (a) the Balancing Market has settled at the Minimum STEM Price in one or more Trading Intervals because, in the Economic Regulation Authority's reasonable opinion, the Minimum STEM Price was too high;*

As the ERA confirmed in its 2022 Notice Paper, the Balancing Market did not settle at the MSP in the current review period (1 February 2021 to 31 January 2022). During the current review period new records of SWIS minimum total generation were set in March 2021, September 2021, October 2021 and November 2021. The most recent record is 751 MW. Synergy believes that generators in the SWIS are reacting appropriately to lower system loads and that there is no evidence that a lower MSP is required to incentivise changes to generator behaviour. As the MSP was not reached during the review period, and with record low system loads, Synergy infers that the current MSP is too low and thus does not meet the requirement of 6.20.16 (a).

- (b) AEMO dispatched a Facility below the sum of all quantities priced at the Minimum STEM Price in the relevant Forecast Balancing Merit Order, for reasons other than Downwards Out of Merit dispatch and dispatch of LFAS or other Ancillary Services or Dispatch Support Services, because, in the Economic Regulation Authority's reasonable opinion, the Minimum STEM Price was too high;*

As there were no instances of the market clearing at the MSP during the current review period, Synergy does not believe that analysis under clause 6.20.14(b) is warranted or possible. Again, as the market did not reach the MPS, Synergy infers that the current MSP is too low and thus does not meet the requirement of 6.20.16 (a).

- (c) there has been a change in the generation fleet in the SWIS that, in the Economic Regulation Authority's reasonable opinion, is likely to result in:*

- i. the current Minimum STEM Price being materially lower than necessary to achieve the criterion in clause 6.20.16(a), including but not limited to an upgrade or the retirement of a Facility with high cycling costs; or*

The upcoming retirement of Muja_G5 will occur on 1 October 2022 and will be the retirement of a Facility with high cycling costs. Synergy notes that similar facilities (being Muja_G6, Muja_G7 and Muja_G8) remain in its Portfolio.

- ii. the current Minimum STEM Price being too high to achieve the criterion in clause 6.20.16(a), including but not limited to the increase of cycling costs due to deterioration or aging of an existing plant; and*

For generators within the Synergy Portfolio, and for the reason above likely for all SWIS generators, Synergy submits that the current MSP is more than sufficient to achieve the criterion in clause 6.20.16(a). In fact, it appears that the requirement for the MSP not to be too low under 6.20.16 (a) was not met because the balancing price did not reach the MSP during the review period.

(d) a Market Participant has notified the Economic Regulation Authority that it considers the Minimum STEM Price is not appropriate or requested the Minimum STEM Price be revised or amended and provided reasons for the basis of its consideration or request.

To avoid infeasible dispatch instructions and/or to meet Essential System Services (**ESS**) bidding requirements, market generators who expect to be online in a trading interval must bid minimum generation quantities at the market floor price, irrespective of how low that price is. To avoid infeasible dispatch instructions, generators who do not expect to be online must bid all quantities above the expected balancing price (and most likely at the Maximum STEM Price).

Bids at the MSP cannot be interpreted to be solely a result of economic costs. They are simply an outworking of the market rules, as generators cannot physically comply with dispatch instructions between 0 MW and their minimum stable quantity.

This explains a lack of market bids between -\$250 and the MSP. An unnecessarily low MSP is not useful in allowing the market to clear at or above the MSP or in managing system security.

Setting a MSP between -\$250 and -\$1,000 will provide a better outcome with respect to the ongoing financial viability of participants while not detracting from generators' abilities to differentiate themselves in the balancing merit order.

Synergy submits that the current MSP is too low and creates unnecessary and unmanageable risk that has the potential to threaten the financial viability of market prudent participants. In particular, Synergy's vulnerability to a low Minimum STEM Price is exacerbated by the rise of distributed photovoltaic generation (**DPV**) on residential households. Given increasing DPV and lower system loads Synergy expects that the market floor price may be reached in the near future. Specifically:

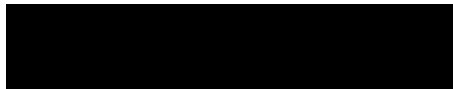
1. Due to increasing penetration of DPV, Synergy's Retail Business Unit (**RBU**) non-contestable book is often a net generator during daylight hours. On mild and sunny days, driven by generation from residential DPV, RBU becomes an aggregate net generator as non-contestable exports exceed contestable customer load. Where RBU is a net generator, it is a price taker (including at the MSP) and has few degrees of freedom to manage its balancing market exposure. Synergy expects that any future MSP events will be highly correlated to intervals where RBU is a net exporter.
2. Balancing market bids between -\$250 and -\$1,000 are a small fraction of the balancing merit order and generally do not differentiate major generators or significant volumes of energy. Hence the differentiation in the balancing market between -\$250 and -\$1,000 is not useful in allowing the market to clear or managing system security.

3. Slow and inflexible start-up profiles of baseload thermal generation units may preclude energy taken offline during low price events in the middle of the day from being available to service evening peaks. This is likely to increase costs, and the likelihood of energy shortfalls.
4. ESS costs are highly dependent on balancing market prices. A lower than necessary MSP will increase ESS costs, to the detriment of consumers.
5. Large variances between demand and intermittent generation forecasts and actuals can result in price floor events with little or no warning available to market participants.
6. In contrast to pure economic theory, an unnecessarily low MSP may not incentivise well hedged generators to exit the market. Given the scarcity of bids between -\$250 and -\$1,000, a generator whose output level is below their net contract position may maximise profit by increasing output to ensure the market floor price is realised, if their total output remains below their contract position. That is, although they are less of a buyer from the balancing market, the quantity is purchased at a materially lower price.

For these reasons, Synergy maintains that the current MSP of -\$1,000/MWh is inappropriately low and fails to satisfy the market objectives established by clause 6.20.16 of the WEM Rules.

Should you require additional information regarding this submission, please contact Genevieve Teo, at genevieve.teo@synergy.net.au.

Yours sincerely



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