

Our Ref: MPM bidding guidelines submission
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Economic Regulatory Authority

Dear Sir/Madame,

Market power mitigation - Publication of draft offer construction guidelines – Invitation for public submissions

BEI is keen to contribute to the process for the development of the new market. We recognise that the WEM has fewer participants and is therefore more open to market manipulation than the NEM and as such there is a need to control market manipulation. However we believe that the drivers for commercial bidding are many and varied and frequently linked to the power purchase agreements Operations and Maintenance contracts and possibly other contractual obligations. This is particularly true of renewable facilities whose electricity is in demand to meet Environmental, social and Governance (ESG) objectives as opposed to purely 'black' power.

Generator responding to commercial pricing arrangements in the PPA

Very few non scheduled generators are operating purely on a market basis, predominately they are selling under a PPA. Already in the market we see bidding that appears to be motivated by PPAs which value green credits at a greater price than the current LGC market. We are aware that older PPAs reward per MWh and did not contemplate negative pricing – i.e. the generator is not penalised by the PPA for generating into a market where the price is negative to any extent. It also likely that many facilities will be contracted to multiple offtakers with different commercial terms in each PPA. The new market should also contemplate the post 2030 environment when LGCs are not longer the green credential currency – however it is likely that commercial and industrial customers requirement for green power will still motive PPAs.

Generator responding to commercial penalties in the PPA

PPAs might also have penalty mechanisms that oblige the generator to produce power outside the cost-based offer proposed. This might for example be as a result of a minimum LGC obligation. This obligation might come about as a result of extended breakdowns that reduced generation for a period. The generator would have to make up for the lost time to meet their obligation to the offtaker to produce a minimum number of LGCs. If they fail to provide those LGCs they face a

penalty. If that penalty is linked to the current market price of LGCs then the proposed mechanism might still work – but that might not be the case.

Generator primarily serving behind the meter client with some spilling in to the market

We foresee that more and more generation will be Commercial and Industrial clients who contract behind the meter power but have a grid connection that they chose to use to both provide firming and spill excess power. We believe this arrangement will result in different cost calculations.

Essential System Services

The efficient cost calculations do not appear to consider the desire of generators to contribute to the Essential System Services market. The nature of the Co-Optimised Essential Services market is such that bidding behaviour is likely to deviate from bid based directly on cost (or indeed value) of MWhs. Any obligations around bidding do need to permit behaviour that optimises the sale of ESS. This could include selling power at a loss to gain sales of ESS or not bidding capacity to enable bidding of services that require generation to ramp up.

Constrained Access

Under the new market generation access will be determined by the BMO irrespective of any bilateral trading expectations under a PPA. It might be necessary for generators to produce power to meet offtakers expectations irrespective of the current short term market pricing.

Changes between Forecast and Final interval pricing

We know that despite the best forecasting intent final pricing will vary from the forecast interval price. Acknowledging that the new market will be tighter as the dispatch and bid intervals are only 5 minutes Generators might choose to bid below the cost they are seeking in order to get dispatched in intervals where they believe the final price will be higher.

Wind – Solar Hybrid Facilities

To maximise a grid connection a renewable generator might choose to develop a hybrid facility with both wind and solar. The calculation methodology will need to contemplate how a hybrid offer can be submitted.

Electric Storage Resources

Whilst BEI does not have any storage in the system currently, we see that the proposal in the consultation paper is unlikely to reflect the commercial optimisation that storage systems would choose to follow. This is partially because of the mechanisms above applying equally to storage but also because the dynamics of the storage market with the WEM are still to be understood. The effects of the floor and ceiling pricing in the WEM combined with ESS and bilateral obligations and the growing size of the unscheduled market are still to be understood for ESRs. Whilst we understand that it is important this is not open to abuse, we believe that it is important that the market has freedom to identify opportunities to facility the investment in this new area.

Fixed and variable Operations costs

Opex for wind and solar facilities usually consist of both fixed and variable elements. The calculation methodology needs to consider the impact of the fixed element in commercial bids.

We therefore request that the guidelines and permitted bidding behaviour are reconsidered to provide more flexibility for the market to determine the most commercial offers. We appreciate the tight timeframe to finalise this work before the market commences, we request an industry workshop be arranged where some of these matters can be discuss and solutions teased out. One possible approach could be that a 'show cause' type mechanism is used whereby participants could be obliged to explain the commercial basis of their bids. This less prescriptive approach might prove effective and flexible.

Yours sincerely



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