

9 February 2023

Our Ref: CWF-20230209

Ms Jenness Gardner
 Chief Executive Officer
 Economic Regulation Authority
 Via online submissions portal

Dear Ms Gardner

RE: SUBMISSION ON DRAFT OFFER CONSTRUCTION GUIDELINE

Thank you for the opportunity to comment on the ERA’s draft Offer Construction Guideline (the Guideline).

Collgar Renewables (Collgar) appreciates the detail and examples provided in the Guideline. Collgar provides the following comments on its specific content.

Topic	Section reference	Comment
Market Power Test frequency	2	Collgar supports the standard gateway test being run every six months, however, suggests the ERA has the discretion to run it more frequently if it considers necessary. For example, where the ERA observes behaviour that may be an irregular price offer or following entry of a new Facility.
Averaging operating costs	3.1	Collgar understands and agrees with the concept that costs are to be considered on average over time, rather than in a single dispatch interval. However, this may still provide opportunity for a Market Participant to game the market but justify it by maintaining an appropriate average price across intervals. It is also likely inappropriate for pricing to be averaged across intervals over long periods (e.g. weeks and months) – rather averaging should be considered for shorter periods (e.g. one start up cycle).
Other costs	4.1	Collgar supports including the ‘Other Cost’ category, and specifically including Market Fees. This should be explicitly included as a cost for intermittent generators, as it is for thermal generators.

		<p>Collgar also notes that Market Fees may, in the future, be allocated to Facilities using a method other than Metered Schedule (e.g. a proportion allocated based on number of connection points). If this occurs and these costs are no longer considered variable operational costs, then such costs will need to be recovered through the Reserve Capacity Mechanism (and hence an amendment to the Benchmark Reserve Capacity Price would likely be needed at that time).</p> <p>Collgar also requests that Essential System Service costs paid to the Australian Energy Market Operator (AEMO) are explicitly listed as an example of an 'Other Cost' (providing the Facility is operated to reasonably minimise such costs).</p>
Average Operating Cost calculation	4.2	The formula on page 8 of the Guideline does not include all the costs listed in Section 4.1. For example, it excludes Market Fees.
Electric Storage Resources	6	<p>The approach to considering costs for Electric Storage Resources (ESR) appears materially different from that applied to other technologies. Thermal and intermittent facility costs are calculated based on the various costs actually incurred and some opportunity costs. However, costs for ESR have been based on opportunity cost alone, rather than considering other input costs (e.g. Variable Operating and Maintenance costs, fuel (charging) costs, etc).</p> <p>It is unclear why a different approach has been chosen. Collgar considers there may be several issues with this approach, including:</p> <ul style="list-style-type: none"> • There is limited prescription as to how this approach is to be implemented or regulated. • There is potential for circular consideration, given the opportunity cost is a function of the value in future intervals, which in turn is influenced by the stored energy not discharged in past intervals. • It does not appear to provide the same level of restraint on offers, particularly given it does not consider periods outside the Electric Storage Obligation Dispatch Intervals (ESODI). • Collgar does not agree that opportunities for market power manipulation for ESR are limited outside of the ESODIs. There will likely be opportunity for and benefit of offering at high prices at other times, for example receive benefit through higher prices in other co-optimised markets. • It appears to be misaligned with the Wholesale Electricity Market (WEM) objectives given it treats ESR

		<p>differently to other technologies and may lead to inefficient market outcomes.</p> <p>ESR facilities can have significant cycling losses, up to 15% in some circumstances. Collgar requests the ERA provide guidance on how these losses should be incorporated into an offer.</p>
Trading v Dispatch Interval	6.2	<p>Example 11 uses Trading Intervals. Collgar encourages the ERA to consider use of market power on a Dispatch Interval basis given offers are made and markets clear for each Dispatch Interval.</p>
Consideration of contractual matters	Various	<p>Collgar notes that most energy produced in the WEM is bilaterally contracted. Collgar expects most new generation systems in the WEM will continually to be bilaterally contracted. This is supported by the ERA's 2022 Triennial review of the effectiveness of the Wholesale Electricity Report. The report highlighted the ERA's modelling into revenue sufficiency for wind, solar and battery storage facilities across a range of emission target scenarios. The ERA's modelling indicated that prices in the WEM will not be high enough to support revenue sufficiency for these technology types.</p> <p>Collgar recommends the ERA consider that genuine commercial arrangements be passed through in a generator's offer</p> <p>By way of example, Collgar has identified several hypothetical situations where a generator who receives LGC's may bid differently depending on commercial arrangements.</p> <ul style="list-style-type: none"> • If a generator is taking merchant risk, it may bid based on its Variable Operation and Maintenance (VOM) costs minus the value of Long-term Generation Certificates (LGC). • If a generator is paid a fixed fee for each megawatt-hour of electricity generated and surrenders the LGC, it may bid based on its COM costs minus a fixed fee. • If a generator is paid a fixed fee for each megawatt-hour of electricity generated and keeps the LGC, it may bid based on its VOM costs minus the fixed fee and the value of the LGC. • If a generator is paid a market price for each megawatt-hour of electricity generated, it will bid as low as allowed by contract and regulatory rules.

		<ul style="list-style-type: none">• If a generator is paid a balancing price for each megawatt-hour of electricity generated or not generated, it will bid as high as allowed by contract or regulatory rules. <p>A generator without market power may offer differently depending on the nature of its contracts. Collgar encourages the ERA to consider that genuine commercial arrangements should be passed through in an energy market offer. Collgar also supports the ERA providing direction in its guidelines as to how commercial arrangements are to be considered.</p>
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Collgar appreciates your consideration of its comments and is available to discuss in more detail is that is helpful.

Yours sincerely

Jake Flynn

REGULATION AND TRADING SPECIALIST