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February 10, 2023

Bruce Layman
Economic Regulation Authority
Level 4, Albert Facey House
469 Wellington Street
Perth WA 6000

Attention: Bruce Layman
RE: Draft Offer Construction Guideline

TransAlta Energy Australia Pty Ltd. ("TransAlta") appreciates the opportunity to make submissions with respect to the Economic Regulation Authority's ("ERA") draft paper, offer construction guideline, dated December 23, 2022.

TransAlta's Southwest Interconnect System Operations

TransAlta and its subsidiary companies and partnerships act as a Market Generator, Market Customer, and Network Operator (uncovered) in the Wholesale Electricity Market ("WEM"). TransAlta co-owns the Parkeston Power Station, a simple cycle dual-fuel power plant located in Kalgoorlie and connected to the Southwest Interconnected system. TransAlta also owns the Southern Cross Energy business, with two simple cycle gas turbine power stations located at Kambalda and at the Kalgoorlie Nickel Smelter.

Draft Offer Construction Guideline Comments

TransAlta supports the development of an offer construction guideline that provides greater clarity to market participants on how to construct compliant offers, how the ERA will assess offers, and guidance on the evidentiary and record-keeping requirements for offer submission. The draft document provides useful general guidance and specific examples to highlight the ERA's expectations with respect to compliant offers. Our submission outlines areas where we would like the ERA to expand upon and provide further guidance and additional examples that we ask the ERA to include in the offer construction guideline.

Forecasting Assumptions

Clarify the evidentiary requirements for forecasting

The examples that are included in the guideline are simplified and assume that expectations are more certain and readily determinable in an incontrovertible manner. More specifically, the examples describe the use of run hours, average cost and fuel consumption expectations. However, in practice, these expectations are determined before the fact and based upon forecasts and assumptions that, by nature, are uncertain and could be different between the market participant and the ERA.

For instance, the ERA states that it "expects over time the weighted average of generators offers over a particular period should approximate their ex-post efficient cost over that same period".[1] We interpret this to mean that re-evaluation of past forecasts to actual experience should be done and where there are variances between forecast and actual that these should be taken into account in future forecasts. However, the ERA does not acknowledge uncertainty in forecasting. This is concerning because the examples presented suggest perfect foresight, which cannot and should not be the standard or ERA's expectation.

Preamble:
Example 9 (gas-fired generator offer construction) describes a case where a gas-fired generator does not know what its production level will be but has an expectation to run 50MW for a period of four hours with a fuel-cost of $92.89/MWh. The example further states:

> Over time the generator might find that its actual dispatch each morning average 60 MW, in which case it should lower the fuel-cost component of its offer price to $88.13/MWh. If its average dispatch was 40MW, then its fuel-cost is $100.02/MWh.

The rest of the example assumes that the generator will apply a fuel-cost of $92.89/MWh based on the expectation to run at 50MW.

In reality, the market participant would be basing their offers on its forecasts and expectations of production levels that would change over time. These may or may not be consistent with historical production levels.

We understand that this example acknowledges that there is a range of potentially different fuel-costs at different production levels, which could vary between $88.13/MWh to $100.02/MWh for operations between 60 MW to 40 MW. The ERA further states: "If supported by documentation and evidence, this method of calculating the fuel-cost component of a generator's offer is compliant with clause 2.16A.1 of the WEM Rules."[2]

[1] Page 17, Offer construction guideline, ERA, December 23, 2022.
[2] Page 16, *Idem*.

Request:

Is the method that ERA is referring to calculating the fuel-cost component based upon forecasted expected dispatch? What types of documentation and evidence will ERA accept in determining expected production (e.g., would actual fuel that is procured suffice)?

Opportunity Costs
Clarify the requirements to attempt to sell gas to other users and the acceptable gas index and/or alternative gas pricing in illiquid market conditions

Sections 3.2 and 4.1 of the guideline specifically mentions opportunity costs that should be valued in an offer. TransAlta appreciates these inclusions as these are important costs to reflect in offers to ensure efficient outcomes that reflect the true cost of dispatch.

Examples 3-5 provide simplified examples that all assume that there is a highly liquid spot market for gas with transparent pricing. While we appreciate that it is highly preferred for market participants and the ERA to establish this with a simple, transparent, and consistent method, we are concerned that these examples may not reflect the realities of the market that is largely bilaterally traded under contract with only smaller volumes potentially available for spot trading.

Preamble:

Example 3 presents a situation where a generator has a $5/GJ long-term variable gas contract and could sell the gas to another user at a higher price of $7/GJ.

Request:

Generally, near-term contracts closely reflect spot price and should be accepted in all cases as the fuel cost without a requirement to attempt to sell that gas to another user to test the potential opportunity cost. Please clarify the ERA's expectations to attempt to sell its gas to another user.

Further, please clarify if the ERA would accept an index price as an alternative to attempting to bilaterally contract with a counterparty More specifically, what index should be used and what index price should be used when the liquidity in the market is low.

Data Retention
Clarify the ERA's expectation for data retention

It is our understanding that the ERA will generally notify the participant of an investigation within six months of its occurrence. However, the evidentiary, documentation and data retention requirements have not been provided. Please

confirm that the that data retention requirements follow the 7-year retention requirement stipulated in rule 10.1.2[3] of the wholesale electricity market rules. We ask the ERA to provide better clarity about its expectations for market participants on data retention.

TransAlta appreciates the ERA's consideration of our submission and we look forward to further engagement on the development of the draft offer construction guideline and the future consultation on the draft trading practices guideline. Please feel free to reach out to me directly should you have any questions or wish to further discuss our submission.

Yours truly,

TransAlta Energy (Australia) Pty Ltd.

[redacted]

KRISTIAN MYHRE
Commercial Manager

[redacted]

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Sr. Advisor, Regulatory

[3] Electricity Industry ACT 2004, Wholesale Electricity Market Rules page 595