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18 July 2023

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Dear ERA

OFFER CONSTRUCTION GUIDELINE – DRAFT FOR CONSULTATION

Synergy welcomes the opportunity to provide a submission to the Economic Regulation Authority (**ERA**) on its revised Offer Construction Guideline: draft for consultation (**OCG**) and Trading Conduct Guideline: draft for consultation (**TCG**) (both issued in June 2023).

OVERVIEW

Synergy is grateful for the ERA's revision of the OCG which provides increased clarity on a number of aspects of the ERA's application of the new WEM Rules. However, Synergy considers further amendments and clarifications are required in order to ensure the OCG provides Market Participants with practical and usable guidance on how they can comply with the WEM Rules.

Synergy considers there are several instances where the guidance provided by the OCG creates uncertainty, or is highly theoretical and based on hypothetical and overly simplistic scenarios or assumptions which are difficult to apply in real-world scenarios faced by Market Participants. Without addressing these concerns, Synergy considers the OCG will fail to provide adequate guidance to Market Participants on the types of offer construction that the ERA considers is compliant/non-compliant with the WEM Rules. The lack of clear guidance is of particular concern for Market Participants such as Synergy who, due to the size of their portfolios, are subject to the ERA's monitoring of the OCG and TCG from the very start of the new regime. As a result, Synergy and other Market Participants with a Material Portfolio, will be required to ascertain the real-world application of the OCG without the benefit of clear and comprehensive guidance.

Synergy sets out **below** a high-level overview of the key issues that it submits must be more clearly dealt with in the next iteration of the OCG. In addition, Synergy's detailed drafting comments in relation to the OCG are provided in Annexure A, and in relation to the TCG are provided in Annexure B.

<u>**FUEL INPUT PRICE ISSUES REQUIRING CLARITY**</u>

1. *Long Term Take or Pay Fuel issues* – The OCG helpfully confirms that Market Participants may use:
    1. the contract price under long-term take-or-pay (**LTTOP**) contracts as the fuel input cost when the contract price is out-of-the-money (i.e. contract price exceeds short term market price); or
    2. the market price when in-the-money (i.e. contract price is less than the market price).

    However, the examples provided to illustrate the application of the above principle are not sufficiently clear and do not provide guidance on how Market Participants should resolve a number of practical, real-world, issues and scenarios related to LTTOPs, including:

    3. can a Market Participant with a LTTOP contract use that per unit cost as its fuel input cost regardless of the extent of its LTTOP contract commitment compared to its fuel requirements for electricity production?
    4. alternatively, are there any limits on the extent to which a LTTOP contract price can be used, such as whether any threshold proportion of take or pay volume is required and whether there is any requirement that the Market Participant's requirements are 'inside' the take or pay component of the LTTOP contract?
    5. how should a Market Participant compliantly account for LTTOP contracts that do not have daily take-or-pay quantities (e.g. LTTOP contracts often contain yearly take-or-pay quantities and may or may not also contain, conditional, multi-year provisions allowing for any paid for but unused gas to be consumed in later years)?
    6. how should a Market Participant compliantly account for LTTOP contracts that are used partly for generation and partly for other purposes (e.g. retail supply)?

2. *Market price* – In the absence of a LTTOP contract, the OCG outlines that fuel from variable contracts should be valued at opportunity cost for the purpose of estimating the relevant fuel input cost for market offers. However, there is no practical guidance provided on how a Market Participant can compliantly determine the 'market price' of fuel and, just as importantly, what methods of determination that will result in non-compliant offers. Synergy considers the OCG needs to be amended to provide guidance and examples outlining how the market price of fuels can be compliantly determined. The OCG should include example that consider 'real world' issues. In particular, how to construct offers where a Market Participant has fuel contracts with various levels of 'firmness', start dates and duration, whether the Market Participant is long or short on fuel and the quantity expected to be available to purchase/sell, the extent to which the Market Participant has an obligation to seek out evidence of the prevailing market price and what evidence (and at what frequency) the Market Participant must do so.

3. *Fuel transport costs* – The OCG outlines that 'efficient *variable* fuel transport costs' can be included in offers but not fixed transport costs that are not avoidable even if it is more *efficient* for those costs to be fixed. Synergy considers this may have the perverse outcome of incentivising Market Participants to seek completely variable transport contracts which can be included in offers rather than fixed transport costs, which will likely result in higher costs to the end user. Synergy is of the view that further consideration, guidance and clarity is needed on how Market Participants should efficiently contract for transport and recover transport charges in its offers and ensuring that the OCG guidance incentives efficient contracting for the market as a whole.

    In addition, where a Market Participant has multiple transport services, further guidance is needed for construction compliant offers. In particular, where variable transport costs are not monotonically increasing, should variable transport costs be averaged when determining a final, delivered cost of gas? If so, how should over what time period should this be estimated?

4. *Storage costs* – The OCG does not provide any guidance or examples about how to compliantly determine a value for the cost of gas drawn from, injected into or held in storage. Would the ERA accept a valuation framework for valuing stored gas at its opportunity cost?

5. *Dynamic forecasts* – It is not clear how frequently Market Participants should update their forecasts of market price. While market prices for gas and coal are unlikely to materially change on a half-hourly basis, it is possible to foresee circumstances where a forecasted value may no longer be accurate for a specific period, but, if averaged over a longer timeframe, the value may appear more reasonable. Synergy notes further guidance around the timing of forecasts is required for fuel price forecasts, and indeed all forecasts used in the construction of offers.

<u>GENERAL ISSUES REQUIRING FURTHER CLARITY</u>

6. *Operational dispatch decisions* – The OCG appears to be based on an assumption that a profit-maximising Market Participant without market power will *always* make dispatch decisions based solely on its view of the short-term '*efficient'* price/opportunity cost. Synergy is concerned that the OCG's focus on theoretical 'short-term' efficient prices will incentivise Market Participants to enter into high-cost short-term variable contracts, even where it is more efficient overall for it have entered into longer-term contracts with a fixed component. Synergy considers the OCG needs to be amended to acknowledge that a profit-maximising Market Participant without market power will often make dispatch decisions that are efficient, reasonable and prudent based on longer-term and/or risk-based assessments and the OCG should include examples of the circumstances where the ERA will consider such conduct would comply with the WEM Rules and other circumstances where it considers the conduct would not comply.

   Synergy also considers that such long-term considerations must be taken into account when the ERA assesses whether a market participant has market power (ie as opposed to assuming "the ability to raise prices for any period of time will be sufficient to establish that the Market Participant has market power", as per the words used in the OCG).

   Below cost offers – The ERA's position on below cost offers as outlined in the OCG and TCG reverses the normal onus of proof and overlooks the reality that generators may have efficient operational reasons for dispatching their facilities that are unconnected to misuse of market power. Further, the OCG and TCG provide no clarity or guidance to Market Participants on what circumstances the ERA may consider a below cost offer to be permissible within WEM Rules.

7. *Limits of Discretion* – The OCG regularly uses language that either expressly or implicitly states that a Market Participant has multiple alternative inputs or methods in relation to how it can formulate its offer prices in a manner compliant with the new Market Rules obligations. Synergy agrees that the new Market Rules obligation that underpins the OCG is formulated in a way that provides for multiple different types of conduct all comply with the new Market Rules obligations. However, the OCG does not always provide guidance on the limitations or boundaries on when a Market Participant can and cannot exercise its discretion. Synergy considers that, in order for the OCG to set out useable and useful examples of compliant conduct, whenever the OCG states that a Market Participant has discretion in relation to how it chooses to comply with the new Market Rules obligations,

the OCG must also set any limitations, preconditions or consequences of exercising this discretion; alternatively the OCG should note that the discretion is very broad.

<u>TRANSITION PERIOD</u>

8. *Limited Implementation Period* - Synergy also notes that as of today, there less than 11 weeks before the new market power mitigation rules commence. Further, the ERA has stated that it expects to publish the final OCG and TCG one month prior to the start of the new market. Synergy is concerned that this is likely to provide insufficient time for it and many other Market Participants to implement any material changes to internal systems that are required to apply the OCG and TCG. In these circumstances, Synergy strongly encourages the ERA to allow a transition period of at least 90 days during which Market Participants can, in good faith, adjust to the new compliance regime without the threat of prosecution action.

Yours sincerely

[redacted]

MARK CHAMBERS
GENERAL MANAGER TRADING

Annexure A – Synergy's detailed comments on the drafting of the Offer Construction Guideline

Synergy's Detailed Comments on the Offer Construction Guideline					
#	**Section Ref**	**Page ref**	**Classification**	**Issue**	**Suggestion**
1.	General		Major	Synergy reiterates its concerns in relation to the lack of revenue adequacy within the WEM from its prior submission[1] on the draft Offer Construction Guideline released in December 2022. Although there have been some improvements in determination of what costs may be considered variable costs and included in offers, Synergy considers that the WEM as a whole does not allow for the recovery of all efficient cost incurred. The OCG provides the basis for offer construction into the energy markets (being the Real-time Market, the Essential System Services markets and the STEM), and as it does not allow for a Market Participant to include any return or risk margin, if a facility is only ever dispatched as the marginal price-setting facility it will not be able to recover any revenue above its variable costs. As such all efficient costs that are not allowed to be included within its offers need to be recoverable elsewhere in the WEM, which is not the case. For example, how should market participants value gas in storage for which commodity, transport and depreciation costs may have been incurred, and can participants recover the fixed costs of storage? Should coal, gas, and liquids in storage be valued at the prevailing market price, or can participants apply a forward-looking approach? Synergy notes that costs that have 'been accounted for elsewhere' cannot be included in the construction of offers. What circumstances does the ERA have in mind that could cause costs to have already been accounted for elsewhere? Synergy strongly recommends that a thorough review of the costs and revenues allowed in the WEM as a whole is undertaken to ensure that Market Participants are able to recover all efficient costs incurred in the market and that the market provides the right incentives for new investments as required.	

[1] Refer: https://www.erawa.com.au/cproot/23130/2/MPM---Pub-Sub---Synergy.pdf

Synergy's Detailed Comments on the Offer Construction Guideline					
#	**Section Ref**	**Page ref**	**Classification**	**Issue**	**Suggestion**
2.	3, 5th Paragraph	Pg 7	Major	Synergy reiterates its concern (see item 6 in the overview section) with the very narrow approach to the impact test with the assessment being able to focus on only interval to determine that a breach has occurred. Synergy strongly suggests that the following statement is revised: "…*for the purpose of clause 2.16A.2 the ability of a Market Participant to raise prices **for any period of time** will be sufficient to establish that the Market Participant has market power*"	
3.	4.1, Table 1	Pg 9	Major	Synergy does not consider that the OCG provides enough clarity to Market Participants on how to construct compliant offers that account for the various aspects of fuel costs and fuel transport. The OCG implies that there is 'a' (singular) prevailing market price for gas. However, gas procurement arrangements rarely exist along a single (price) dimension, but rather are typically multidimensional – for example, the distinction between 'firm' and 'as available' gas contracts. It is not clear how Synergy (or other Market Participants) should forecast 'the' prevailing market price for gas given these different, practical considerations. In circumstances where substantial quantities of gas are to be drawn from a diverse portfolio of contractual arrangements, how should a single market price for gas be derived? For example, if the cost to procure the gas is to be the guide, how should firm as opposed to as available gas, or to longer- or shorter-term contracts, be weighted to form a single market price for gas? Alternatively, if the opportunity cost is to be the principal focus and a market participant expects to draw substantial quantities of gas from a diverse portfolio, what proportion of that substantial quantity should be applied to determine the 'market price' if that gas was not to be used as generation fuel? To assist Market Participants, the OCG needs to provide real-world examples and guidance on how these various fuel cost components can be considered and accounted for in compliant offers.	

Synergy's Detailed Comments on the Offer Construction Guideline					
#	**Section Ref**	**Page ref**	**Classification**	**Issue**	**Suggestion**
4.	4.3.2	Pg 17 to 20	Major	The OCG makes references to possible tiered approach to fuel input pricing. Synergy notes that Market Participant development of any tiered fuel pricing approach would require substantial additional guidance from the ERA such that adequate processes and systems could be compliantly developed. If a tiered fuel and transport pricing approach was required, Market Participants with multiple gas contracts, transport services and gas generators would need the ERA to provide guidance to understand which generators and services should be allocated 'cheap' tiers, and when. Further, would Market Participants be expected to apply a tiered approach across each generation unit separately, or may they apply a tiered input approach across all generation units as a whole? Synergy requests that the final OCG clearly outlines whether a tiered pricing approach would be mandatory, and if so unambiguously describes how such an approach should be implemented such that Market Participants can build robust and compliant systems, noting that this could not occur immediately.	

Synergy's Detailed Comments on the Offer Construction Guideline					
#	**Section Ref**	**Page ref**	**Classification**	**Issue**	**Suggestion**
5.	5.1	Pg 31	Major	Synergy makes the comments below regarding the OCG's position on Market Participants being able to ensure that no persistent net over or under recovery of costs occurs as well as the offers being able to "*approximate the actual efficient cost they incur over that same period* ". Several cost components that Market Participants contemplate when constructing their offers are complex, in addition to forecasting expected dispatch volumes, dispatch runtimes and resulting market prices. The cause of a forecast error (and over/under recovery) in one interval may not be the same cause of error in another interval due to the numerous variations and factors that change. Synergy considers it unreasonable to assume Market Participants can even out forecast errors over time and correctly predict errors to ensure no net gain or loss occurs. Additionally, if a Market Participant were to identify a bias, they should not be required to "over-correct" for the biases to even out the historic over/under recovery, and should only be required to adjust their forecasts on a forward looking basis. Forecast errors can be caused by any number of factors – including data provided by third parties (such as weather related factors), plus variations due to changes in customer/load behaviour (weather and non-weather driven), inaccuracy of AEMO forecasts, changes in behaviour of other generators etc, changes in the opportunity costs, price levels etc in the market. It is unreasonable to expect that all error factors can be corrected. Given the universal business requirement for a return on capital, duly adjusted for risk, Synergy disagrees with statement that a Market Participant without market power would not include a risk margin. Synergy suggests that the OCG's position on the risk margin is reviewed, and notes that the previous position in the draft Offer Construction Guideline released in December 2022 suggested that "*Given that there is uncertainty involved in forecasting future run times and production, a risk margin could be justified. Including a risk as an additional cost may be acceptable in some circumstances to cover extended runs of losses, but not to guarantee systemic profits in the real-time market or STEM. To include a risk as an additional cost, a market participant would need to demonstrate why such a loss cannot be rectified by improving its methods"*[2]. The concerns and clarity raised in this item are also related to item 23 (below)	

Synergy's Detailed Comments on the Offer Construction Guideline					
#	**Section Ref**	**Page ref**	**Classification**	**Issue**	**Suggestion**
6.	5.2	Pg 33	Major/ Clarity	Section 5.2 of the OCG appears to suggest that there are a limited number of reasons where it may be appropriate for a Market Participant to offer at below costs, however there is no guidance as to what those reasons might be. The OCG also states that *"Additional guidance on complying with clause 2.16A is in the Trading Conduct Guideline".* However, Synergy does not consider that there is enough clarity provided across the OCG and the Trading Conduct Guideline as to when a Market Participant may be able to reasonably offer below costs. Synergy considers the OCG must set out the reasons and documentation Market Participants required to provide to reflect below cost offers, especially where the need for a below cost offer arises in real time. Synergy is of the view that reasons such as those in the list below (noting this is not an exhaustive list) should be considered as valid reasons for offering below costs: • Avoiding infeasible dispatch; • Allowing a facility to ramp on/off; • Undertaking commissioning or prudent facility testing; • Managing short-term facility constraints; • Allowing for efficient ride-through of a facility; and • Facilitating in-merit ESS participation when out of merit in energy market. Synergy also notes that similarly, there may also be a limited range of circumstances where it may be appropriate for a Market Participant to offer above costs. Synergy is of the view that reasons such as those in the list below (noting this may not be an exhaustive list) should be considered as valid reasons for offering above costs: • Avoiding infeasible dispatch; • Allowing a facility to ramp on/off; • Undertaking commissioning or prudent facility testing; and • Facilitating in-merit upward ESS participation.	

[2] Refer to [Draft-offer-construction-guideline---For-Publication.pdf (erawa.com.au)]

Synergy's Detailed Comments on the Offer Construction Guideline					
#	Section Ref	Page ref	Classification	Issue	Suggestion
7.	4.4	Pg 21 and 22	Clarification / Major	Synergy notes that the OCG does not provide enough clarity in relation to the permissibility of including costs associated with Long Term Service Agreements within the VOM costs component. The OCG states: *"VOM may be bundled into annual contracts. However, to be included in offers, these costs must increase as electricity production increases."* Synergy seeks clarity as to whether the "bundled annual costs" in this statement refers to Long Term Service Agreements? [redacted] It is also noted that the OCG does not provide clear definitions of the annual operating expenses and the annual maintenance expenses and what costs are included in each of these components. Synergy suggests that the OCG should provide more clarity in terms of the definitions and allowable costs for each of the offer construction components, suggest the ERA provides a level of detail similar to section 2.6.1 and 2.6.2 of the PJM report, but for WEM based facilities and operations.	

Synergy's Detailed Comments on the Offer Construction Guideline					
#	**Section Ref**	**Page ref**	**Classification**	**Issue**	**Suggestion**
8.	4.4, including example 10	Pg 21 and 22	Clarification / Major	Synergy notes that the OCG does not provide any clarity in relation to whether VO&M costs incurred across many years of a facility must account for the forecast time value of money (e.g. inflation indexation) or can be based on a 'snapshot ' of current costs approach. Examples 9 and 10 refer to "*present value… in 2022/23 dollars at a real (after inflation) discount rate of 5 per cent per annum*" and to a market participant adding "*this amount plus inflation indexation*", respectively. Synergy considers that, to the extent the ERA considers compliance with the new WEM Rules obligations require such longer-term costs to be adjusted for time value of money, the OCG must set out how this can be compliantly determined, including how to account for extreme variability in input costs over the relevant recovery period (including inflation and foreign exchange rates) and how to calculate a compliant discount rate. [redacted]	
9.	4.1, Table 1	Pg 9	Moderate	Synergy notes that, in terms of costs incurred for Essential System Services (**ESS**), Table 1 only lists Contingency Reserve Raise costs. However, Synergy considers that other ESS charges should be considered for inclusion as "*Incremental/Average Operating Costs*" provided that the ESS charges incurred vary depending on the output level or operation of the facility (is the facility on or off). ESS costs that are incurred due to facility operation should be allowed to be included in the construction of offers, Synergy suggests that Table 1 (and the relevant tables for the different facility types) is amended to include these costs.	Suggest Tables 1, 3, 5, 6, 7 and 9 are amended to include other ESS costs where appropriate.

Synergy’s Detailed Comments on the Offer Construction Guideline

#	Section Ref	Page ref	Classification	Issue	Suggestion
10.	4.1, Table 1	Pg 10	Moderate	Synergy reiterates its concerns in relation to the OCG not providing clarity on the permissibility (or otherwise) of efficient ride through costs in its prior submission[3]. Synergy considers that from a market perspective, it is efficient for a facility to ride-through if it results in lower (or the same) overall costs to the market than the costs of shut down and start up. Without clarity on this issue, Market Participant may opt to decommit and recommit knowing that the costs incurred are allowable in their offers rather than riding through and incurring losses in the energy or ESS markets that may not be allowable in offers, which will result in higher costs overall to the market and consumers. Synergy considers that the OCG should allow for Market Participants to include the costs of efficient ‘ride through’ in their offers and suggests that Table 1 is amended to include ride-through costs. This term should also be listed in the cost tables for each of the different facility types – noting that it may not be an applicable cost for all facility types.	
11.	4.2, last paragraph on Pg 11	Pg 11	Clarification / Moderate	Synergy suggests the following statement may need to be revised for clarity purposes. *“There is no standard approach to converting a Market Participant’s IEVCs to Price-Quantity Pairs, however a Market Participant may not over-recover EVCs over time due to its conversion method.”* The current drafting could imply the revenues the Market Participant receives from the market are not to be above the EVCs, rather than implying that the method used and bids offered must not be above the EVCs. Further, given the nature of the EVCs and uncertainty of dispatch outcomes, it may be difficult to ensure that under or over recovery does not occur. Synergy suggests that the conversion method should not be *expected* to lead to over-recovery. Synergy also considers that the OCG appears to suggest that a Market Participant can *at best* recover its EVCs, given the requirement to ensure over-recovery does not occur. In addition, Synergy notes that any system changes required to meet any changes in methodology approaches may not be completed prior to market start, being 1 October 2023.	*“There is no standard approach to converting ~~a Market Participant’s~~ IEVCs into Price-Quantity Pairs, however a Market Participant may not use a conversion method that would be expected to lead to the over-recovery of EVCs in their offers over time ~~due to its conversion method~~.”*

[3] Refer: https://www.erawa.com.au/cproot/23130/2/MPM---Pub-Sub---Synergy.pdf

Synergy's Detailed Comments on the Offer Construction Guideline					
#	Section Ref	Page ref	Classification	Issue	Suggestion
12.	4.3.2	Pg 17 to 20	Moderate	Examples 4 and 5 in the OCG provide examples of fuel offer prices and long term take or pay (LTTOP) contracts, however the examples do not provide Market Participants with any guidance as to what constitutes a LTTOP contract. For example, would a long-term contract with only 10% of the volume subject to a take-or-pay commitment count as a LTTOP contract? If not, what is the threshold (or does only the quantity of gas subject to a take-or-pay commitment count as a LTTOP contract)? Further, the OCG state that a Market Participant may apply the highest fuel-input-cost that it expects to incur when forming its offers. Would this be the case if the Market Participant had a very small, but high-priced LTTOP contract? For clarity, assume a Market Participant holds a long-term contract with a take-or-pay component of 50TJ/day, with the option to purchase up to 75TJ/day, and that the market price for gas was $5/GJ. How should/may that Market Participant price under the following market conditions: - its long-term contract is priced at $4/GJ, and the participant expects to need 40TJ/day; - its long-term contract is priced at $4/GJ, and the participant expects to need 60TJ/day; - its long-term contract is priced at $6/GJ, and the participant expects to need 40TJ/day; or - its long-term contract is priced at $6/GJ, and the participant expects to need 60TJ/day. If the Market Participant's pricing depends on whether it is 'inside' the take-or-pay component of a contract, how should a Market Participant account for the fact that many take-or-pay commitments are expressed in annual rather than daily terms?	

Synergy’s Detailed Comments on the Offer Construction Guideline					
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13.	10	Pg 51 to 52	Moderate	Synergy remains concerned that the statement *“These records include, **but are not limited to**:*” (***emphasis*** added), which is used in both sections 7.1 and 7.2 of the Offer Construction Guideline, imposes open-ended and uncertain record-keeping obligations on Market Participants. As stated in Synergy’s prior submission[4], Synergy still requests that the ERA: 1. review the existing list of records and confirm their relevance to the objective test in clause 2.16A.1; and 2. provide further clarification regarding what, if any, additional information it requires. In providing this clarification, Synergy requests the ERA recognise the regulatory burden and costs of any such additional obligations.	
14.	General		Clarification	Synergy seeks clarity if a Market Participant is allowed to use alternative methods for the amortisation and allocation of costs across a dispatch period. The OCG notes: “*There is no single standard method for Market Participants with this cost structure to construct profitable Price-Quantity Pairs. A potential strategy to profitably dispatch or discharge into the WEM is to make its offers based on the average operating cost (AOC) of producing electricity in each Dispatch Interval.*” However, it does not clarity if alternative methods to AOC are allowed. Synergy if of the view that alternate methods for costs allocation should be considered provided that it does not result in distortions in the market and is consistent with the WEM Rules. Suggest the OCG is amended to clarify if alternate methods are allowed.	

[4] Refer: https://www.erawa.com.au/cproot/23130/2/MPM---Pub-Sub---Synergy.pdf

Synergy's Detailed Comments on the Offer Construction Guideline					
#	**Section Ref**	**Page ref**	**Classification**	**Issue**	**Suggestion**
15.	General		Clarity	Synergy notes that the OCG does not provide guidance as to how Market Participants can balance competing mandatory obligations that may apply to their facility (for example a facility may have a mandated emissions threshold). Can a Market Participant account for other obligations and consider these when constructing its offers, and if so, is it something that the Market Participant is able to account for in all offers, or only when the facility is nearing the threshold? Synergy notes it is aware that some SWIS facilities are already subject to emission related production limits. Further, it is noted that emissions thresholds within the Reserve Capacity Mechanism are currently being proposed by EPWA, which may result in similar clarity and guidance requirements. Synergy suggests that the OCG should provide Market Participants with guidance as to how they can construct compliant offers that account for other facility specific obligations or operational limits.	
16.	4.1, 2nd Paragraph	Pg 8	Typographical	Synergy notes that a Market Participant may still incur losses if their facility is not dispatched or discharged. For clarity, Synergy suggests that the drafting in the paragraph is amended to refer to "*operating*" losses and "*operating*" costs.	When a Market Participant includes only EVC related to producing the relevant electricity, it would incur no operating losses or operating costs if its facility is not dispatched or discharged when the market-clearing price does not reach its offer price.
17.	4.1, Table 1	Pg 9	Clarity	Synergy seeks clarity as to what operating costs are considered and allowable for inclusion under each of the Avoidable Fixed Costs items listed in Table 1. Synergy's interpretation of "*Costs incurred when generators are required to be available at the start of the first Dispatch Interval, so must start and generate at a loss..*." includes the enablement losses that are incurred during ramping. Synergy notes that enablement losses are separately listed in some, but not all of the tables within the OCG.	

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18.	Table 1, Table 3, Table 5, Table 7, Table 9		Typographical	Synergy notes that some of the drafting and terminology use within the OCG does not appear to be consistent. The term "Ramping Costs" is used in Table 1 and Table 3, however it is not listed in Tables 5, 6, 7 and 9. Further, the term "Enablement Costs" is used in Tables 5, 6, 7 and 9 and not in Table 1 or Table 3. The description used for these two terms is also not consistent, creating uncertainty as to what costs are allowed to be considered for each of the different facility types. Can the OCG please provide more guidance as to what costs are allowed to be included under each of the terms and examples for coal and gas fuelled facilities. Contingency Reserve Raise Costs in $/MWh is included under "Other Variable Costs" in Table 3, however it is not included under "Other Variable Costs" in Tables 5, 6, 7 and 9. Synergy considers that this is a valid costs for all facilities to be able to include in their offers.	

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19.	4.1, Table 1 and Footnote 12	Pg 9	Clarification	Synergy considers that further clarification is required with respect to the ERA’s references to permissible periodic maintenance in the draft OCG and the extent to which it may be included in the calculation of SUCs (or SDCs). Prima facie, recovery of such costs in SUCs (or SDCs) appears to be contrary to: 1. the general requirements in the draft OCG that only variable costs and AFCs can compliantly be taken into account when determining market offer prices; and 2. the ERA’s position in the recent ERB case, where the ERA argued that periodic maintenance is not a valid component of a facility’s SUCs for the purposes of determining the facility’s market offer price. Synergy also notes that the description provided for Start-up costs within Table 1 makes reference to the PJM Energy Market and the definitions used within the PJM. The definition provided by PJM differs to Synergy’s expectations at to what is considered Start-up costs. PJM defines start-up costs as being those that occur up to breaker closure, whereas Synergy expected to be able to include the costs required to bring the machine to a minimum stable generation state (which would be hours after breaker closure for a coal-fired power station at a substantial costs). Synergy seeks clarity as to what costs the OCG allows to be included in SUCs and SDCs. If the OCG is intended to align to the PJM definition, Synergy seeks clarity as to how the uncaptured start-up costs are allowed to be accounted for in offers. Further Synergy also cautions against the use of definitions from external markets, and notes this may create additional obligations for Market Participants as they will now be required to keep up to date on the PJM. In addition, if there are any reforms in the PJM, they may result in absurd outcomes in the WEM if the equivalent reforms aren’t being replicated within the WEM. Synergy suggests that the OCG should provide its own definition of these terms and not refer to external markets.	
20.	4.4, Equation 8	Pg 22	Typographical	Suggest that the number 210,240 at the top of the summation sign should instead be 105,120 (=8760 x 12). In addition, it is suggested that the “,” in the number is excluded from the equation as it initially appears as though t is to be summed over two factors (1 to 210, and also 1 to 240).	**Incremental variable operating and maintenance (Equation 8):** $IVOM(t) = \frac{(OE + AM)}{\sum_{t=1}^{105120} Q(t)}$ ….

Synergy's Detailed Comments on the Offer Construction Guideline					
#	**Section Ref**	**Page ref**	**Classification**	**Issue**	**Suggestion**
21.	4.6.2	Pg 25	Clarity	Synergy seeks clarity as to whether enablement losses incurred while ramping down are allowed to be considered as part of the costs associated with shutdown as described in the following sentences. *"Shut-down costs (SDCs) are the costs incurred when a generator moves from producing electricity to a state of zero production.* *These can include some labour, materials and fuel costs, as well as the cost of generating electricity during a generator's ramp down that is not fully compensated for by the real-time price."* Suggest the OCG provides more clarity on the allowed costs to be considered within this component.	
22.	5.1	Pg 31	Clarity	The current drafting of the OCG states: *"AEMO is required to publish Pre-Dispatch Schedules in a Real-Time Market timetable and Market Participants are required to account for the information provided in Pre-Dispatch Schedules when constructing their offers [clauses 7.1.3, 7.4.2 and 7.4.2A]."* Synergy seeks clarity as to whether or not Market Participants are able to have their own assumptions that differ to AEMO (such as the output levels of DER and intermittent generation) in relation to the forecast dispatch outputs, and can a Market Participants use these in the construction of their market offers. Suggest the OCG clarifies the ability of Market Participants to have differing assumptions.	
23.	5.1, Example 16	Pg 32	Clarity	In addition to the issues discussed above in item 5, Synergy suggests that Example 16 does not provide a real-world example and also seeks clarity on the requirements that the example is attempting to highlight. The example appears to be suggesting that Market Participants should be reviewing their offers and construction methodology and updating for any apparent forecasting biases, however there is no clarity as to how often this should be undertaken. Are Market Participants expected to be updating their offers in real-time to account for variations between dispatch expectations and actual dispatch outcomes (for example, expected to run for 6 hours, but once the facility is turned on it is now only expected to run for 4 hours).	

Synergy's Detailed Comments on the Offer Construction Guideline					
#	**Section Ref**	**Page ref**	**Classification**	**Issue**	**Suggestion**
24.	6.1, 2nd Paragraph	Pg 34	Comment	Synergy considers that likelihood of gas-fired generators, and particularly combined cycle gas-fired generators, incurring avoided start-up and shut-up costs will increase with the start of the new market and with the increased penetration of renewables, DER and ESR facilities in the WEM. Synergy suggests that the following statement may need revision as the market continues to evolve: *"Avoided start-up and shut-down costs may be incurred by gas-fired generators but are not common."*	
25.	6.2, 2nd Paragraph	Pg 35	Comment	Synergy is of the view that for coal facilities, the expected run-time for each dispatch cycle has reduced significantly over the recent years. Coal facilities are now cycled more often, which results in increased occurrences of start up and shut down being incurred, increasing the wear and tear of the facilities and maintenance costs and requirements. Synergy considers that the ERA's assumption of "very long" dispatch periods for coal facilities is and will increasingly become invalid suggests the following statement is revised. *"Start-up and shut-down costs are incurred by coal-fired generators, but such generators but such generators tend to run for very long periods so these costs are insignificant when allocated across each dispatch cycle."*	
26.	6.4, Table 7	Pg 38	Clarity	Synergy considers that the OCG does not fully capture the complexities that renewable facility may face in their offer construction. The WEM is transitioning towards net zero, increasing the demand for electricity generated by renewable generators, and leading to other factors that need to be considered. Additionally, note that LGCs can be "saved" and used in later years, are renewable facilities allowed to consider forecast LGC prices in future years as well as the current year in their offers?	
27.	6.5 to 6.7	Pg 39 to 42	Clarity	Synergy notes that OCG does not provide any clarity as to how Market Participants with ESR facilities may account for any LGC and STC liability, incurred on ESR round trip losses, and if these are considered to be valid variable costs that can be compliantly included in ESR offers. [5]	

[5] Clean Energy Regulator, Battery Storage Systems. Available at: https://www.cleanenergyregulator.gov.au/RET/Pages/Scheme%20participants%20and%20industry/Renewable%20Energy%20Target%20liable%20entities/Liability-for-specific-scenarios.aspx

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28.	7	Pg 43	Clarity	Synergy notes that the OCG does not provide any guidance on whether a Market Participant can allocate some of its Avoidable Fixed Costs (such as Start-up Costs) to its offers in the ESS market and not include these costs in its offers in the RTM. In terms of effective cost allocation and causer pays approach to cost recovery within the market, this may be a more appropriate offer if the facility is required to dispatch solely for ESS purposes, and ensures that start-up costs are borne by the users who caused the ESS requirement. For example, a synchronous condenser may operate at no load into energy markets but provide RoCoF, in this instance the facility would need to be able to include its start-up costs in its RoCoF offers. Synergy suggests that the OCG provides further guidance on construction of offers across energy and ESS markets.	

Annexure B – Synergy's detailed comments on the drafting of the Trading Conduct Guideline

Synergy's Detailed Comments on the Trading Conduct Guideline					
#	Section Ref	Page ref	Classification	Issue	Suggestion
1.	2.1	Pg 2	Clarification	Synergy's expectation is that the monitoring compliance assessment in relation to the following statement, will be undertaken based on the valid binding effective submission at close of stem submission window. *"When monitoring compliance with 2.16A.3 in the STEM, the level of uncertainty expected to be found in making offers several days in advance of the STEM auction will be considered."*	
2.	3.1, Example 1	Pg 5	Clarification	Synergy notes that Example 5 as drafted creates uncertainty as to how outages are considered within the TCG and may appear to be suggesting that a Market Participant could be required to continue to offer and dispatch a facility that requires maintenance up until the fault occurs. Running generators to the point of failure may severely increase outage lengths and be detrimental to overall WEM system security.	
3.	3.2, Example 3	Pg 7	Clarification / Moderate	Synergy notes that Example 3 appears to be suggesting that Market Participants will be required to rebid within less than 5 minutes after becoming aware of an outage. Synergy suggests that this expectation is unreasonable and very likely to be unachievable, further it is noted that the WEM Procedure that deals with outages allows for a Market Participant to manage more pressing matters in relation to the outage prior to informing AEMO or updating their market offers.	
4.	3.3, Example 6	Pg 9	Major	As previously discussed, Synergy does not consider that the OCG and TCG provides sufficient guidance as to the circumstances when it may be considered that an offer below or above costs is an acceptable offer. Synergy does not consider that Example 6 provides any meaningful information to Market Participants and suggests the example is amended to show circumstances where a below cost offer is acceptable and where it is not. In addition, the OCG and the TCG need to be amended to provide clarity to Market Participants on their offer construction and circumstances where below costs offers are reasonably accepted. As a drafting note, it is suggested that the example should also state that the energy clearing price rather than this being an inferred outcome.	