

3 October 2024

Submitted via: <https://www.erawa.com.au/current-consultations>

Re: ERA proposed changes to WEM Procedures and Guidelines following EPWA's proposed amendments to WEM Rules under the FCESS Cost Review

Thank you for the opportunity to comment on the proposed changes to the Offer Construction Guideline (OCG) that are related to EPWA's proposed amendments to the WEM Rules under the FCESS Cost Review.

I write this submission, not as a representative of a single organisation but as an individual that has been involved with trading assets in the WEM for the last 10 years and who is a current member of the Market Advisory Committee (MAC) representing Energy Producers.

While the focus of this submission is the OCG, I would first like to voice concern with the ERA's choice to propose changes to WEM procedures and Guidelines based on an Exposure Draft of WEM Amending Rules rather than a final version of the WEM Amending Rules. Given the significance of these Rule changes and the submissions EPWA has received as part of the Rule Change process¹, I do expect that final amending rules will differ from the Exposure Draft, necessitating redrafting of the WEM Procedures and Guidelines and a new, or at least extended, period of consultation by the ERA.

With respect to the drafting of the OCG that is currently under consultation, I do acknowledge that most changes align with the Exposure Draft of WEM Amending Rules released by EPWA². However, I also note that some changes appear to be unrelated to the proposed Amending Rules and of these changes I do not support the following:

1. Inability for Market Participants to include costs associated with the *Runway Cost Allocation of Contingency Reserve Raise* (CRR Costs) in price offers.
2. The requirement for Independent Expert advice to support distribution of costs across run time, output and number of starts.

^{1,2} Exposure Draft of WEM Amending rules and related submissions available from: <https://www.wa.gov.au/government/publications/energy-policy-wa-has-released-the-exposure-draft-of-fcess-cost-review-amendments-consultation#:~:text=Energy%20Policy%20WA%20has%20published%20the%20Exposure%20Draft%20of%20WEM>

1. Inability to include CRR Costs

Multiple changes throughout *Section 3 Real-time Market for energy offers* of the OCG, result in the inability for Market Participants to include costs associated with the *Runway Cost Allocation of Contingency Reserve Raise* (CRR Costs) in price offers.

CRR Costs are an unavoidable cost incurred by electricity producers that does vary with energy production. I consider that it does meet the ERA's criteria of an efficient variable cost as outlined in section 3.1 of the OCG and therefore, believe that any appropriate OCG should allow for the inclusion of these costs in Energy Offers.

It is also my opinion, based on its Draft Report dated 5 September 2024 and the information presented at the public workshop held on 19 September 2024, that the ERA have inadequately justified the reason for or need to exclude CRR costs in Energy Offers.

I understand that the proposal is intended to improve market efficiency, so question how market efficiency will be improved if, by its own words, "ERA's proposal may prevent some generators from recovery (sic) their runway FCESS costs"³. I believe creating a market where participants cannot recover costs not only threatens the commercial viability of existing energy assets in the WEM but will also discourage future investment. Furthermore, I believe that pursuing this proposal does set a conceptual precedent that has to be followed when Runway Cost Allocation of Contingency Reserve Lower is eventually implemented⁴, and that doing so will negatively impact commercial viability of potential and existing Electricity Storage Resource projects.

I am appreciative of the ERA's recognition that CRR Costs is a complex issue and commend the willingness to seek industry feedback on the matter. Following, completion of this consultation, should the ERA still view the exclusion of CRR Costs from Energy Offers as an improvement to market efficiency, I would encourage that changes to the OCG related to CCR Costs are at least postponed so that further analysis can be conducted and additional industry input can be sought.

2. Requirement for Independent Expert advice

A new addition in section 3.1 of the OCG requires that "Independent Expert advice must support the distribution of costs across run time, output and number of starts".

³ From 3.1.1 of ERA's Offer construction guideline and trading conduct guideline – Draft report, published 5-Sep-24. available from: <https://www.erawa.com.au/electricity/wholesale-electricity-market/monitoring-the-new-wem>

⁴ An outcome of the Cost Allocation Review, further information available from: <https://www.wa.gov.au/government/document-collections/cost-allocation-review#:~:text=The%20Coordinator%20of%20Energy%20has%20undertaken%20the%20Cost%20Allocation>

While the principles of this requirement may be applied to any type of facility, I believe it is most relevant to 'peaking' assets that operate irregularly and are most likely to distribute incurred costs across runtime, output and starts.

I do not think it appropriate to require Independent Expert advice to support the distribution of their costs across run time, output and number of starts as such experts are unlikely to have sufficient knowledge and appreciation of the individual characteristics of each facility, the pace at which their operational profiles have/may have to change in response to the evolving WEM landscape, nor the wider commercial or regulatory considerations an owner of such a facility may have to account for when constructing Energy Offers.

If the intent of this requirement for is to ensure Market Participants make Economic Price Offers, then I believe it is unnecessary as there is appropriate guidance in the OCG and sufficient penalties imposed under Market Rules to influence how Market Participants construct their Energy Offers.

Once again, I appreciate the opportunity to provide feedback on the Offer Construction Guideline and encourage the ERA to consider the points raised in this submission.

Should you wish to discuss anything further please do not hesitate to contact me via email: [REDACTED] or via telephone: [REDACTED]

Yours sincerely,

[REDACTED]