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Economic Regulation Authority
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Dear ERA,

FREQUENCY CO-OPTIMISED ESSENTIAL SYSTEM SERVICES OFFER PRICE CEILING DETERMINATION – DRAFT REPORT

Synergy welcomes the opportunity to provide a submission to the Economic Regulation Authority (**ERA**) on the *Frequency co-optimised essential system services offer price ceiling determination – Draft report (Paper)*.

Synergy's comments on the Paper and the draft determination of the FCESS Offer Price Ceilings are provided **below** for the ERA's consideration.

INABILITY TO FULLY CONSIDER THE FCESS FRAMEWORK

The Offer Construction Guideline (**OCG**), which outlines the ERA's interpretation of the Wholesale Electricity Market Rules (**WEM Rules**) for the construction of compliant market offers, is still to be finalised following the recent consultation on the draft guideline¹. The final OCG will provide guidance to Market Participants on the costs that can and cannot be reasonably included in their offers into the Frequency Co-optimised Essential System Services (**FCESS**) markets. Therefore, until the OCG is finalised Market Participants cannot, with certainty, ascertain if the proposed FCESS Offer Price Ceilings allow for reasonable recovery of their costs.

In addition, the final version of the OCG may impact on the appropriateness of the proposed values for the FCESS Offer Price Ceilings. Synergy therefore suggests that, once the final version of the OCG is published, the ERA conduct a review under clause 2.26.2A of the WEM Rules, to confirm the continued appropriateness of the proposed FCESS Offer Price Ceilings, including seeking submissions from Market Participants.

¹ Economic Regulation Authority, 21 June 2023, *Offer Construction Guideline Draft for consultation*, ([online](#)).

FCESS CO-OPTIMISATION AND COST RECOVERY

Energy Policy WA's (EPWA's) *Market Power Mitigation Strategy Information Paper* outlines that the FCESS price limits are to be implemented such that the FCESS Offer Price Ceiling is "set at the highest reasonable cost of provision of any FCESS (excluding opportunity costs) plus a margin, rounded up, accompanied by a FCESS Uplift Payment."² In addition, EPWA notes that "the FCESS Offer Price Ceiling is the maximum price for FCESS offers, but the clearing price will be allowed to exceed the FCESS Offer Price Ceiling to allow compensation of opportunity costs consistent with the planned application of the WEMDE dispatch algorithm."³

Based on EPWA's policy intention and the ERA's Paper, Synergy understands that Market Participants providing FCESS will be fully compensated for opportunity costs and enablement losses for their facility dispatch within the WEMDE solution, and can rely on being "trapped on" by the respective facility's FCESS trapezium. However, Market Participants have not been able to undertake market testing to ensure that WEMDE solves as expected or understand how opportunity costs (and losses) are recovered within the market solution. Synergy notes that if the WEMDE solution does not fully compensate Market Participants as expected, the WEMDE solution, and potentially the OCG and FCESS Offer Price Ceilings, will need to be amended as a priority to rectify this issue prior to the start of the new market.

Synergy considers that the ERA would be obliged to initiate a review of the FCESS Offer Price Ceilings as soon as possible after 1 October 2023 in the event WEMDE solves other than as set out above, particularly noting that clause 2.26.20 prohibits Market Participants from formally requesting the ERA undertake such a review until 1 April 2024.

RATE OF CHANGE OF FREQUENCY SERVICE

The Paper proposes the FCESS Offer Price Ceiling for the Rate of Change of Frequency (RoCoF) service is set at \$0/MWs per hour from 1 March 2024 on the following basis:

"When providing RoCoF Control Service, a generator needs to be already dispatched for energy, A facility providing energy is, therefore not expected to incur any additional costs when providing RoCoF Control Service and would be expected to recover any costs through its energy offers".⁴

Synergy notes that the application of a \$0/MWs per hour Offer Price Ceiling for RoCoF may however result in scenarios where there is no clear merit order for RoCoF provision if facilities offers in the RTM are at the same price. It is unclear from the Paper as to how the market will decide a tiebreak between facilities that provide the RoCoF service at the same RTM price (given that RoCoF offers must be \$0/MWs based on the Paper), Synergy is particularly concerned that an arbitrary tie-breaker could result in a facility switching in and out of merit for RoCoF from interval to interval. Synergy seeks clarity as to how the ERA proposes to manage this issue, and suggests that allowing Market Participants to offer prices above \$0/MWs could minimise the risk of this occurring. In addition, Synergy suggests that any tie-break method used for FCESS provision should be consistent with the energy market and consider the whole trading day rather than at an interval basis.

² Energy Policy WA, 10 November 2022, *Market Power Mitigation Strategy Information Paper*, p 16, ([online](#)).

³ *Ibid* ([online](#)).

⁴ Economic Regulation Authority, 18 July 2023, *Frequency co-optimised essential system services offer price ceiling determination – Draft report*, p 15, ([online](#)).

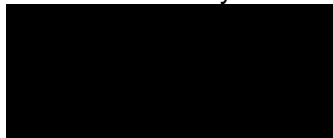
Further, Synergy notes that in a situation where a facility is not in merit for energy, but required for the provision of RoCoF, the market will incur additional costs (via the Uplift Payments for the RoCoF facility). Synergy seeks clarity as to how the Uplift Payments are allocated to the FCESS services, and if, in this situation they will be solely allocated to RoCoF, as the reason for the increased costs. Additionally, an outcome where the RoCoF clearing price is \$0, but the RoCoF market incurs large costs via the Uplift Payments is unlikely to provide an appropriate investment signal for RoCoF provision. As the WEM transitions to net zero emissions, there will likely be a need for new investments to provide RoCoF.

Synergy considers that the proposed \$0/MWs Offer Price Ceiling for RoCoF does not provide an incentive for new technologies (such as synchronous condensers that can provide RoCoF without providing energy) to enter the RoCoF services market. Synergy considers that the RoCoF Offer Price Ceiling should be reviewed to ensure that it incentivises new entrants into the RoCoF services market.

IMPLEMENTATION CONSIDERATIONS

The start of new market is fast approaching, with 6.5 weeks until market start. This creates significant limitations for Market Participants to make any required system and process changes that may result from the FCESS Offer Price Ceiling determination (or release of the final OCG). Synergy understands that the ERA is only planning to release the final version of the OCG and the Trading Conduct Guideline (**TCG**) in September 2023, close to new market start. In addition, market trials are still underway and may result in additional requirements and refinements by Market Participants, further limiting their resources and ability to ensure compliance across all obligations and requirements for the new market. In these circumstances, Synergy strongly suggests that the ERA allow Market Participants a transition period of at least 90 days to adjust to the new compliance regime.

Yours sincerely



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