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Economic Regulation Authority  
Level 4, Albert Facey House,  
469 Wellington St, Perth WA 6000

Submitted via: [www.erawa.com.au/consultation](http://www.erawa.com.au/consultation)

### **Draft offer construction and trading conduct guideline**

Alinta Energy appreciates the opportunity to provide feedback on the second draft of ERA's draft offer construction guideline and the draft trading conduct guideline.

We recommend the following amendments.

#### Draft Offer Construction Guideline

- 1. We disagree with the proposal that “persistent gains” over a period should be considered a breach of 2.16A.<sup>11</sup>**, especially in the STEM. Consistent with our previous submission, we maintain that while a participant's offer history may be relevant in assessing the compliance of their forecasts, the primary consideration should be whether an offer was reasonable, considering the risks and uncertainties present at the time it was made.
  - a)** There are many reasons why the past may not predict the future. Factors that seem to be creating persistent forecast errors can be transient and unpredictable for example, system security requirements constraining other facilities, renewable resources relative to forecasts, and the availability of other generators and network assets. Equating a breach with “persistent gains” could effectively require participants to increase their risk of over-forecasting to balance their instances of perceived under- and over-forecasting, regardless of these reasons. This could distort the market and could also disincentivise investment in flexible peaking capacity. These generators should not be expected to routinely over-forecast their runs considering that they must recover relatively high startup costs in a short period, so even small over-forecasting errors can have substantial impacts on their economics.
  - b)** In the STEM, all customers may decide if, and at what price they buy. This means consistent premiums may be paid (and received) due to sellers and buyers' respective positions and risk profiles, and not due to forecasts. For example, baseload generators may consistently opt to secure a STEM price above its average variable cost, regardless of the forecast RTM price to avoid negative price risk, especially as the RTM price becomes increasingly difficult to predict. Alternatively, a peaking facility may seek to secure a price that supports a run above their minimum generation and recovers their startup costs. Finally, a retailer with a substantial short position may seek to secure a material proportion of supply to hedge its RTM exposure, despite a forecast low RTM

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<sup>11</sup> “Unbiased forecasts lead to neither persistent gain nor loss in each market.” p.31. Example 16 suggests that a gas fired generator should be “correcting” its forecasting and offers within a month-long period, if it has over-recovered, regardless of the factors that caused the errors and whether they will recur.

Alinta Sales Pty Ltd ABN 92 089 531 984

PO Box 8348, Perth BC, WA 6849

**T** [REDACTED] **F** +61 8 9266 4688 **W** [alintaenergy.com.au](http://alintaenergy.com.au)

price.

- c) In the STEM, 'as available' gas is typically determined after STEM trading closes, such that some generators' average variable costs may be lower during the RTM trading windows, compared with the STEM.

**2. Facilities that will be required to offer FCESS capacity for the first six months of market start should be permitted to recover forgone energy revenue.**

AEMO has confirmed that where a Facility offers FCESS capability, per 2.4.19 of the Dispatch Algorithm Formulation WEM Procedure, its energy dispatch will be required to remain within its trapezium limits, capping its output at its enablement maximum, even if it does not clear for FCESS. As 1.49.9 of the WEM Rules requires facilities previously accredited for FCESS to offer, the facility will incur a cost equal to the difference between its standing enablement maximum and maximum volume that would have otherwise cleared for energy, multiplied by the energy price. We recommend that participants be permitted to recover this cost in the RTM.

Draft Trading Conduct Guideline

**1. The guideline should clarify that urgent maintenance does not constitute a breach of 2.16A.3.**

We note that the requirements in 2.16A.3 are similar to the requirements in Part XICA of the Competition and Consumer Act.

ACCC's paper, '*Guidelines on Part XICA— Prohibited conduct in the energy market*', provides examples of behaviour which impacts market outcomes but does not breach the requirements in the Competition and Consumer Act.

This includes an example (#25<sup>2</sup>) clarifying that a participant that withdraws capacity for the purpose of conducting emergency maintenance and causes high prices, is not breaching its obligations under Part XICA because emergency maintenance represents a legitimate purpose for its withdrawal.

Example 25 also highlights that, if there is a change in the material conditions and circumstances upon which a withdrawal decision was made, the ACCC's position would be that the original offer was not necessarily made to distort market outcomes or in bad faith.

We recommend that the guideline include an example like #25, from the ACCC's guidelines. We suggest that this example also note that maintenance can be urgent due to potentially narrow opportunities where resources are available to conduct it, and where the risk to system security, equipment, safety or market outcomes would be greater where the maintenance did not proceed.

We consider that this clarification is especially important as the balance of supply and demand in the WEM continues to tighten, making it increasingly difficult to schedule outages, and raising the likelihood that generators must conduct maintenance during Forced Outages.

**2. The guideline should clarify that not following a DI due to potential damage to equipment should not constitute a breach of 2.16A.3.**

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<sup>2</sup> ACCC, [Guidelines on Part XICA—Prohibited conduct in the energy market](#), May 2020.

In the current WEM, the dispatch engine does not account for facilities' technical capabilities. For example, it will dispatch generators below their minimum stable levels, and dispatch them for very short cycles, regardless of their minimum synchronisation and de-synchronisation times.

The WEM Rules necessarily permit generators not to follow these DIs where it would cause potential harm to safety, damage to equipment or could break a law.

While the new WEM arrangements include features which are expected to reduce frequency of these DIs (like the ability to submit inflexibility profiles), we anticipate that they may still occur, and therefore recommend that the guideline clearly stipulate that not responding to them does not constitute a breach of 2.16A.3 where doing so would cause damage to equipment, risks to safety or breach a law.

Thank you for your consideration of Alinta Energy's submission. If you would like to discuss further, please contact me at [oscar.carlberg@alintaenergy.com.au](mailto:oscar.carlberg@alintaenergy.com.au) or on 0409 501 570.

Yours sincerely



**Oscar Carlberg**  
Wholesale Regulation Manager