

Your Ref:
Our Ref: MPM bidding guidelines submission
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Economic Regulatory Authority

Dear Sir/Madame,

Market power mitigation - Publication of draft offer construction guidelines – Invitation for public submissions

Thank you for the opportunity to respond to the further consultation on the draft offer guidelines. We acknowledge the introduction of some flexibility in the assessment of the drivers of bidding behaviour.

Commercial risk, profit and corporate overheads

With the exception of Synergy generators are commercial organisations that assesses risks and determine whether or not to invest in a facility. Any investment is subject to a great deal of risk both in the construction and the operations phases. Risks which have to be assessed include construction costs, financing and interest rate costs, technology and operational risks, competition and regulatory risks. The investor in a generator must be entitled to make an element of profit commensurate with the risks taken.

We also would like to note that some costs relate to corporate overheads which do not related directly to the generation of energy from the facility.

Recovery of Capex on lower capacity factors

In the recent report on the SWIS Demand Assessment it became apparent that EPWA anticipated 50GW of renewable energy is to be constructed to satisfy a demand of 7.5GW. It was explained that the expectation was that capacity factors would be lower for the generators. This would relate to a capacity factor of approximately 15% which is well below WA wind capacity factors of up to 50% and solar of around 30%. This can only occur in a market where either the Capacity Credit mechanism compensates generators for the capex of those facilities or generators can recover their costs during the periods of lower demand.

We therefore request that the rules make clear that the Capacity Credit mechanism will reward generators sufficiently to compensate for the lower return on capital without the need for the market to set a price level which will provide sufficient rewards in certain intervals. If the expectation is that the energy market will provide the incentive then it is not clear how that value could be reflected in this offer guideline mechanism.

Green value not always equal to LGC value.

The new market should also contemplate the post 2030 environment when LGCs are not longer the green credential currency – however it is likely that commercial and industrial customers requirement for green power will still motivate PPAs. Already in the market we see bidding that appears to be motivated by PPAs which value green credits at a greater price than the current LGC market. The value that is ascribed to the green credits is reflective of numerous commercial and stakeholder values and therefore is not consistent across the market.

Generator responding to commercial pricing arrangements in the PPA

Very few non scheduled generators are operating purely on a market basis, predominately they are selling under a PPA. It also likely that many facilities will be contracted to multiple offtakers with different commercial terms in each PPA. The details of each specific PPA might motivate a generator differently to the theoretical EVC. A generator must be able to set an offer such as to cover an average of their costs.

Generator responding to commercial penalties in the PPA

PPAs might also have penalty mechanisms that oblige the generator to produce power outside the cost-based offer proposed. This might for example be as a result of generation not meeting a minimum LGC obligation (or some other green credit). This obligation might come about for example as a result of extended breakdowns that reduced generation for a period. The generator would have to make up for the lost time to meet their obligation to the offtaker to produce a minimum number of LGCs. If they fail to provide those LGCs they face a penalty which may or may not be reflective of current LGC values. If that penalty is linked to the current market price of LGCs then the proposed mechanism might still work – but that might not be the case.

Generator primarily serving behind the meter client with some spilling in to the market

We foresee that more and more generation will be commercial and Industrial clients who contract behind the meter power but have a grid connection that they chose to use to both provide firming and spill excess power. We believe this arrangement will result in different cost calculations which may or may not relate to the market but are driven by direct commercial reasoning unrelated to market power manipulation.

Constrained Access

It might be necessary for generators to produce power to meet offtakers expectations irrespective of the current short term market pricing. An example of this is where a PPA directly links consumption to a specific facility to achieve this generators might need to bid lower than the EVC.

Other Costs

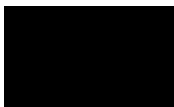
Clause 4.8 on Other Costs requires the other costs to relate to the facility in question producing electricity. However there are other costs that could be genuine costs which are unrelated to power generation such as financing costs, head office overheads

Process for justification of Other Costs or reasoning for offer construction.

We appreciate that the new guidelines provide for Market Participants to demonstrate the reasoning for below cost offers and include other costs. We believe that this approach should allow other any commercial drivers that can be demonstrated are not related to market power abuse.

We request that the guidelines make clear how those demonstrations would be assessed, how a Market Participant can obtain reliable guidance on a pricing mechanism they would like to use and any appeal process that would be included if the reasoning was disputed.

Yours sincerely



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