# WEM Procedure

Economic Regulation Authority triggering the SESSM

Effective 1 October 2023

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**VERSION HISTORY**

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| 1 | 1 October 2023 | Creation of WEM Procedure for New Market (Procedure Change Proposal EEPC_2023_03) |

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# 1. Procedure overview

## 1.1 Relationship with the Market Rules

1.1.1 This WEM Procedure sets out the process by which the Economic Regulation Authority identifies inefficient Real-Time Market outcomes to decide whether to trigger the Supplementary Essential System Services Mechanism (SESSM) in accordance with the Wholesale Electricity Market Rules (WEM Rules) [WEM Rule 3.15A.2].

1.1.2 The WEM Rule 3.15A.5 requires the ERA to document in a WEM Procedure the processes it will undertake to identify inefficient Real-Time Market outcomes pursuant to WEM Rule 3.15A.2. This WEM Procedure: Economic Regulation Authority triggering the SESSM, is developed to meet the requirement of WEM Rule 3.15A.5.

1.1.3 The Australian Energy Market Operator (AEMO) may also trigger the SESSM [WEM Rule 3.11.6].

## 1.2 Interpretation

1.2.1 In this WEM Procedure, unless the contrary intention is expressed:

(a) Terms used have the same meaning as those given in the WEM Rules (made pursuant to the *Electricity Industry (Wholesale Electricity Market) Regulations 2004*).

(b) To the extent that this procedure is contrary or inconsistent with the WEM Rules, the WEM Rules shall prevail to the extent of the inconsistency.

(c) A reference to the WEM Rules or WEM Procedures includes any associated forms required or contemplated by the WEM Rules or WEM Procedures.

(d) Words expressed in the singular include the plural and vice versa.

1.2.2 References to the WEM Rules in this Procedure in square brackets [WEM Rule #] are included for convenience only and do not form part of this Procedure.

1.2.3 References to the WEM Rules within this WEM Procedure are current as of 22 July 2023.[1]

1.2.4 Terms defined in the *Electricity Industry Act 2004*, the WEM Regulations and the WEM Rules have the same meanings in this Procedure unless the context requires otherwise.

## 1.3 Purpose of this procedure

1.3.1 The SESSM provides a mechanism for procuring Frequency Co-optimised Essential System Services (FCESS).

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[1] Consolidated Companion version of the WEM Rules, (online).

1.3.2    The purpose of this WEM Procedure is to set out how the ERA will determine inefficient Real-Time Market outcomes to decide whether to trigger the SESSM for FCESS procurement.

**1.4    Application of this procedure**

1.4.1    In this WEM Procedure where obligations are conferred on a Rule Participant, that Rule Participant must comply with the relevant obligations [WEM Rule 2.9.8].

**1.5    Associated WEM procedures and guidelines**

1.5.1    WEM Procedure: Monitoring Protocol (ERA Procedure)

1.5.2    WEM Procedure: Monitoring and Reporting Protocol (AEMO Procedure)

1.5.3    WEM Procedure: SESSM Procurement (AEMO Procedure)

1.5.4    WEM Procedure: Portfolio Determination (ERA Procedure)

1.5.5    WEM Procedure: FCESS Accreditation (AEMO Procedure)

1.5.6    Offer Construction Guideline (ERA guideline)

1.5.7    Trading Conduct Guideline (ERA guideline)

**1.6    Conventions used**

1.6.1    In this WEM Procedure the conventions specified in WEM Rules 1.3 - 1.5 apply.

**2.    Inefficient Real-Time Market outcomes and triggering SESSM**

**2.1    Identifying inefficient market outcomes**

2.1.1    The ERA may only trigger the SESSM if the ERA reasonably considers that Real-Time Market outcomes are not consistent with the efficient operation of the Real-Time Market in respect of FCESS or the Wholesale Market Objectives [WEM Rule 3.15A.2].

2.1.2    Where the ERA considers triggering the SESSM, the ERA will coordinate with AEMO, so that AEMO can plan for the procurement process in accordance with section 3.15A of the WEM Rules.

2.1.3    To determine whether to trigger the SESSM, the ERA may use information available from:

(a)    The Coordinator's review into Essential System Services standards and the basis for setting the Essential System Services requirements under WEM Rules 3.15.1A and 3.15.1B.

(b)    The ERA's investigation of market behaviour under WEM Rule 2.16.9, including information pertaining to FCESS Accreditation Shortfalls and FCESS Participation Shortfalls and their impact on the FCESS markets.

[WEM Rule 3.15A.2]

2.1.4    The ERA may also use information provided in expressions of interest submitted to AEMO in accordance with WEM Rule 3.15B.9 to analyse if resources exist outside of the WEM which, if participating in FCESS markets, would reduce inefficient market outcomes.

2.1.5    Market Participants must offer prices that reflect only the costs that a Market Participant without market power would include in forming profit-maximising price offers [WEM Rule 2.16A.1]. The Offer Construction Guideline outlines how Market Participants can comply with this obligation.

2.1.6    Market Participants must not engage in conduct prohibited by WEM Rule 2.16A.3 in FCESS markets. Prohibited conduct includes withholding of capacity to distort FCESS Market Prices. The Trading Conduct Guideline outlines how Market Participants can comply with WEM Rule 2.16A.3.

2.1.7    The ERA will utilise a range of processes and sources of information to assess possible inefficient Real-Time Market outcomes. The ERA may use indicators of inefficient Real-Time Market outcomes to assist the ERA to analyse if inefficiencies exist in the market that would warrant triggering the SESSM. Examples of these indicators are provided in paragraph 2.1.9.

2.1.8    The ERA will consider market outcomes not consistent with the efficient operation of the market that are caused by:

(a)    Market Participants making or not making Price-Quantity Pairs where such behaviour may be inconsistent with the WEM Rules, including the general trading obligations under WEM Rule 2.16A.

(b)    Structural issues in the market that might, for example deter entry of new facilities to FCESS markets. These issues may include any market design feature that may limit the recovery of cost for resources or any possible limitations for accreditation of facilities for the provision of FCESS.

2.1.9    The following is a non-exhaustive list of examples of Market Participant behaviour that ERA will consider to be indicators of inefficient Real-Time Market outcomes:

(a)    A Facility's FCESS bidding behaviour changes over the Trading Day without a reasonable cause identified.

(b)    Real-Time Market outcomes are materially different from historical outcomes without a reasonable cause identified.

(c)    Existing Facility costs are contributing to higher prices when compared to new entrant costs.

(d)    Lower cost technology for FCESS provision is not entering FCESS.

2.1.10    The ERA will examine whether Market Participant behaviour in the FCESS markets as evidenced by their offers or absence of offers:

(a)    Increases or has the potential to increase the FCESS market prices to an inefficient level, indicating a potential need to designate a Market Participant to participate in the SESSM.

(b)     Decreases or has the potential to decrease FCESS market prices to an inefficient level that may dilute investment signals for new entry.

2.1.11     Based on indicators of inefficient Real-Time Market outcomes, the ERA will analyse the extent of inefficiencies affecting the market. In conducting this analysis, the ERA may undertake the processes that include:

(a)     Compare individual Facility Price-Quantity Pair offers of FCESS with:

(i)     Price-Quantity Pair offers of FCESS from similar Facilities.

(ii)     Expected or known costs for that Facility.

(iii)     Price-Quantity Pair offers from the same Facility in different time periods.

(iv)     Historic Price-Quantity Pair offers of FCESS in the Real-Time Market.

(b)     Compare existing Facility costs with potential new entrant costs.

(c)     Use the analyses in (a) and (b), and information received from expressions of interest forms submitted in accordance with WEM Rule 3.15B to assess the extent of inefficiencies affecting the market. This assessment will estimate the extent of inefficiencies based on the difference between the cost of FCESS (either observed or forecast) and the ERA's estimate of the cost of FCESS if they were procured more efficiently.

(d)     Compare FCESS market outcomes with other relevant jurisdictions.

## 2.2     Consideration for other factors

2.2.1     If the ERA determines inefficient market outcomes exist, then the ERA may trigger the SESSM by considering whether the costs of running the SESSM procurement process will outweigh the benefits of reducing or eliminating the inefficient outcomes. The ERA may consider:

(a)     Whether the inefficiency is persistent or if it arises from an isolated incident.

(b)     Whether the SESSM is likely to encourage the entry of new Facilities.

(c)     Whether there are other mechanisms that could be utilised to reduce inefficient market outcomes more effectively than triggering the SESSM. These alternative mechanisms include possible changes to WEM Rules.

(d)     Residual risk to the market after implementing alternative mechanisms to address inefficient market outcomes, as identified in paragraph (c), or the ERA taking enforcement actions to address breaches of the WEM Rules in accordance with WEM Rule 2.13.36.