



Economic Regulation Authority

Procedure Change Report: ERA triggering the SESSM

(EEPC_2023_03)

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Contents

Contents

Contents	3
1. Introduction	1
1.1 Background	1
2. Procedure change	2
2.1 Changes from the draft procedure.....	2
3. Consultation process	3
3.1 Submissions received.....	3
Appendix 1 Summary of changes made to the draft WEM Procedure	4

1. Introduction

The Wholesale Electricity Market (WEM) in the Western Australian South-West Interconnected System operates under the *Electricity Industry Act 2004*, *Electricity Industry (Wholesale Electricity Market) Regulations 2004* and Wholesale Electricity Market Rules (WEM Rules).^{1,2,3}

The Economic Regulation Authority is responsible for monitoring and enforcing compliance with the WEM Rules. In conducting its functions, the ERA aims to provide businesses and consumers with confidence that the WEM operates efficiently and effectively.⁴

The State Government has published amendments to the WEM Rules in a Consolidated Companion version to take effect on the New WEM Commencement Day. This report and corresponding WEM Procedure apply the amended WEM Rules and capitalise terms defined in the WEM Rules.⁵

In the new WEM, the ERA may trigger the Supplementary Essential System Services Mechanism (SESSM) if the ERA reasonably considers the Real-Time Market outcomes are not consistent with the efficient operation of the Real-Time Market in respect of:

- Frequency Co-optimised Essential System Services (FCESS), or
- The Wholesale Market Objectives.

[WEM Rule 3.15A.2]

The publication of this Procedure Change Report is the final step of the process to develop the new WEM Procedure, ERA triggering the SESSM.

The WEM Procedure is due to commence on the New WEM Commencement Day.

1.1 Background

The WEM Procedure: ERA triggering the SESSM has been developed in accordance with WEM Rule 3.15A.5. The new WEM Procedure documents the ERA's process to identify inefficient Real-Time Market outcomes to inform the ERA's decision to trigger the SESSM, a process in the new WEM for procuring FCESS.

On 21 June 2023, the ERA published the Procedure Change Proposal and invited submissions, under the Procedure Change Process specified in section 2.10 of the WEM Rules. Submissions closed on 18 July 2023.⁶ A summary of submissions received during the consultation period and the changes made to the draft WEM Procedure are in Attachment 1.

¹ *Electricity Industry Act 2004* (WA), ([online](#)).

² *Electricity Industry (Wholesale Electricity Market) Regulations 2004* (WA), ([online](#)).

³ Wholesale Electricity Market Rules (WA), 22 July 2023, ([online](#)).

⁴ Economic Regulation Authority. Statement of Strategic Intent, 2023-2025 ([online](#)).

⁵ WEM Rules, Consolidated Companion version, 22 July 2023 ([online](#)).

⁶ ERA, 2023 Procedure Change EEPC_2023_03 ([online](#)).

2. Procedure change

The ERA considers that the ERA triggering the SESSM WEM Procedure is consistent with the WEM Objectives. WEM Procedures must be [WEM Rule 2.9.3]:

- Developed, amended, or replaced in accordance with the process in the WEM Rules.
- Consistent with the Wholesale Market Objectives.
- Consistent with the WEM Rules, the *Electricity Industry Act 2004* and the WEM Regulations.
- Amended or replaced in accordance with section 2.10 of the WEM Rules where a change is required to maintain consistency with Amending Rules.

On 22 June 2023 the ERA notified the Market Advisory Committee (MAC) by email of the Procedure Change Proposal and noted that it did not require advice from the MAC on the proposal.

WEM Rule 2.10.13(d) requires that this report provides a summary of views expressed by the MAC and any relevant working group.

WEM Rule 2.10.9(a) requires the independent Chair of the MAC to convene a meeting of the MAC if the ERA considers that advice from the MAC is required, or two or more MAC members consider that advice on the Procedure Change Proposal is required.

The MAC did not establish any relevant working groups for the EEPC_2023_03 Procedure Change Proposal.

2.1 Changes from the draft procedure

The ERA triggering the SESSM WEM Procedure has been changed since the draft published on 21 June 2023 to incorporate stakeholder feedback and to improve the clarity of the process that the ERA intends to undertake. Many of the changes are of either a typographical or grammatical nature. The changes include:

- Applying consistent referencing of the WEM Rules and consistent formatting.
- Additional clarity on how the ERA will determine inefficient market outcomes and how it will use the indicators.
- Additional clarity provided on indicators of inefficient Real-Time Market outcomes with respect to FCESS.

The WEM Procedure and a marked-up version showing changes to the draft WEM Procedure is attached to this Procedure Change Report.

3. Consultation process

On 30 June 2023, during the consultation period, the ERA held a stakeholder workshop to outline this WEM Procedure and the ERA's other new WEM Procedure, Portfolio Determination.⁷ At the workshop, the ERA also explained its two new Guidelines and answered questions from stakeholders.⁸

In its Procedure Change Proposal, the ERA requested stakeholder feedback on any aspect of the draft WEM Procedure and posed the following two questions:

1. What further clarification, if any, do stakeholders require on how the ERA determines inefficient market outcomes and the process that the ERA may undertake to identify inefficient Real-Time Market outcomes?
2. What additional indicators can stakeholders propose that would assist the ERA to determine inefficient market outcomes?

No direct response to either of these questions was received, however the submissions sought clarification on issues raised by both questions.

3.1 Submissions received

The ERA received four submissions which are published on its website.⁹

The Australian Energy Market Operator's (AEMO) submission discussed the need for increased operational coordination with the ERA and requested additional detail on the ERA's intended processes.

AGL's submission noted a lack of clarity on exactly how the ERA triggers the SESSM process including what directions are issued and how and when notifications are made to the market.

Alinta Energy's submission questioned the need for the ERA's SESSM trigger due to the market power restrictions in the WEM Rules, and noted that non-regulatory factors are likely to suppress prices below competitive levels and undermine private sector investments.

Synergy's submission requested additional clarity on how the ERA would determine when other jurisdictions were 'comparable' for the purposes of analysing the impact of pricing behaviour in Real-Time Market Submissions on FCESS Market Clearing Prices.

Submissions also included feedback on typographical and grammatical matters. A summary of the feedback received and changes to the WEM Procedure are listed in Appendix 1.

⁷ ERA, 2023, Procedure Change EEPC_2023_02 ([online](#)).

⁸ ERA, 2023, Offer Construction Guideline and Trading Conduct Guideline ([online](#)).

⁹ ERA, 2023, Procedure Change EEPC_2023_03 ([online](#)).

Appendix 1 Summary of changes made to the draft WEM Procedure

Submissions were received from AEMO, AGL, Alinta Energy and Synergy.¹⁰

Table 1: ERA responses to stakeholder submissions

Issue	Paragraph	Stakeholder's issue description	Raised by	Response
1	2.1.7 and 2.1.9 (previously paragraph 8.7)	<p>Additional detail being sought in the procedure to support the information specified in the WEM Rules (for example, paragraph 8.7 does not provide further detail beyond that contained in the WEM Rules on how the pricing/cost comparisons or analyses listed might be undertaken).</p> <p>Additional specification around these processes and how the proposed indicators of inefficient Real-Time Market outcomes might be used would provide more certainty and transparency to the market.</p>	AEMO	<p>This procedure provides additional clarity to the provisions required under WEM Rule 3.15A.5 by explaining objectively how the ERA will determine inefficient market outcomes and how the ERA will use the indicators.</p> <p>To help clarify how these provisions work together paragraphs 2.1.7 and 2.1.9 have been added to the procedure.</p> <p>Paragraph 2.1.11 explains how the ERA will analyse the extent of inefficiencies affecting the market using a set of indicators of inefficient market outcomes.</p> <p>The added paragraph 2.1.12 provides clarity on the factors the ERA will consider before triggering the SESSM.</p> <p>Additionally, WEM Rule 3.15A.4(a) requires the ERA to publish “the reasons why it triggered the SESSM”, and it is expected that this would help provide a further level of transparency to market participants in how the ERA has exercised its responsibilities when triggering the SESSM.</p>

¹⁰ Stakeholder submissions are available at ERA, 2023, Procedure Change EEPC_2023_03, ([online](#)).

Issue	Paragraph	Stakeholder's issue description	Raised by	Response
2	2.1.11 (previously paragraph 8.7 and 8.10.6)	<p>“Seeking clarity on the criteria that the ERA will use to classify jurisdictions as comparable for the purposes of identifying inefficient Real-Time Market outcomes.”</p> <p>Reference made to Paragraph 8.7(d) “...other relevant jurisdictions” and Paragraph 8.10.6. “...comparable jurisdictions”.</p>	Synergy	<p>Considering relevant or comparable jurisdictions (paragraph 2.1.11) is one of a number of indicators that the ERA may consider under WEM Rule 3.15A.5(d).</p> <p>In selecting “comparable” jurisdictions, the ERA might consider the similarity of FCESS products, the size of system, supply availability of FCESS relative to volumes required, types of technology being deployed, and the underlying nature and stability of the system (that requires FCESS to maintain security and reliability).</p> <p>Indicators other than comparing FCESS outcomes with outcomes in comparable jurisdictions are expected to provide more relevant information for the ERA’s process under WEM Rule 3.15A.5.</p>
3	2.1.4	Paragraph 8.8 “refers to a ‘market test’, which may refer to a ‘call for expressions of interest’ under section 3.15B. If this is the case, it is recommended to change the wording from “collected by AEMO under the market test” to “provided to the ERA by AEMO under clause 3.15B.8”.	AEMO	Change made to improve clarity on the ERA’s use of information collected by AEMO under the expressions of interest process.

Issue	Paragraph	Stakeholder's issue description	Raised by	Response
4	General	Requests that the ERA consider increasing operational coordination with AEMO through the Procedure.	AEMO	The ERA has met with AEMO about its feedback and will continue to coordinate with AEMO on operationalising the WEM Procedures in the new WEM. The scope of the WEM Procedure does not extend to the administrative process for triggering the SESSM. A new paragraph 2.1.2 has been added to clarify that the ERA will coordinate with AEMO, so that AEMO can plan for the procurement process.
5	General	Alinta suggest that due to market power restrictions in the WEM Rules, such as the FCESS offer price caps and other restrictions on FCESS pricing and capacity, the ERA will not require a SESSM trigger.	Alinta	<p>Inefficient market outcomes in FCESS markets can arise from exercise of market power.</p> <p>The ERA agrees with Alinta that it is less likely the ERA will trigger the SESSM in response to exercise of market power by market participants, as market participants comply with the general trading obligations in the WEM Rules.</p> <p>To provide more clarity on instances where the ERA might trigger the SESSM due to structural market issues (such as prices being lower than that expected for a market operating efficiently), the procedure includes changes. Refer to paragraph 2.1.8.</p>

Issue	Paragraph	Stakeholder's issue description	Raised by	Response
6	General	Noted that “non-regulatory factors are likely to suppress prices below competitive levels and undermine private sector investments.” “The SESSM could further exacerbate this investment environment by creating uncertainty that new entrants would be subsidised and thereby further reduce prices below levels that are necessary to support investment decisions that have already been made.”	Alinta	The WEM Procedure covers the scope required by WEM Rule 3.15A.5. When deciding whether to trigger the SESSM, the ERA will consider a range of information sources. The ERA may also consider the costs and benefits of the SESSM procurement process relative to addressing the inefficient market outcomes through other means (see paragraph 2.1.12).
7	1.5 (previously section 5)	“Associated WEM Procedures. The list of procedures are not / should not be individual paragraphs – but rather a numbered list”	AGL	Change made
8	2.1.3 (previously paragraphs 8.2.1 and 8.2.2)	“Paragraph 8.2.1 and 8.2.2 these items should be a numbered list not individual paragraphs.”	AGL	Change made
9	2.1.8 (previously paragraphs 8.3.1 and 8.3.2)	“Paragraph 8.3.1 and 8.3.2 these items should be a numbered list not individual paragraphs.”	AGL	Change made
10	2.1.6 (previously paragraph 8.5)	“Full stop missing at end of paragraph 8.5.”	AGL	Change made

Issue	Paragraph	Stakeholder's issue description	Raised by	Response
11	2.1.9 (previously paragraph 8.10.1 to 8.10.8)	"Paragraphs 8.10.1 to 8.10.8 these items should be a numbered list not individual paragraphs."	AGL	Change made
12	1.1.2	"Its not clear from this procedure exactly how the ERA triggers the SESSM process, what direction are issued, what notifications are made to the market and how they are made to the market."	AGL	<p>The WEM Rules prescribe the actions the ERA must take when it triggers the SESSM. This includes publishing the reasons for triggering and determining the service specification. Additionally, the ERA will develop operational coordination processes with AEMO to conduct the procurement process.</p> <p>The scope of the WEM Procedure does not extend to the administrative process for triggering the SESSM. A new paragraph 2.1.2 has been added to clarify that the ERA will coordinate with AEMO, so that AEMO can plan for the procurement process.</p> <p>The added paragraph 2.1.12 provides clarity on the factors the ERA will consider before triggering the SESSM.</p>