

31 May 2024

Economic Regulation Authority
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Submitted via the [Economic Regulation Authority online form](#)

Submission on Energy Offer Price Ceiling – Draft Determination

The Australian Energy Market Operator (AEMO) welcomes the opportunity to provide this submission on the Economic Regulation Authority's (ERA) Energy Offer Price Ceiling Draft Determination.

AEMO notes that in its draft determination, the ERA has indicated that the Energy Offer Price Ceiling as calculated under clause 2.26.2 of the Wholesale Electricity Market (WEM) Rules would increase by 103 per cent, from \$738/MWh to \$1,500/MWh.

AEMO notes this significant increase coincides with broader concerns around price increases since the new market started on 1 October 2023, as evidenced by the ERA's recent analysis presented to the Market Advisory Committee on Frequency Co-optimised Essential System Services (FCESS) prices (*Market Advisory Committee Action Item 9/2024*); and the commencement of the Review of the Essential System Service Framework (ESSF Review), being led by the Coordinator of Energy.

AEMO notes that a rule amendment to clause 1.61.2 of the WEM Rules, which commenced on 22 May 2024 extends the timeframe for the ERA to make its final determination on the Energy Offer Price Ceiling until 1 January 2025. Given the direct relationship between the Energy Offer Price Ceiling and the FCESS Clearing Price Ceiling, AEMO considers there may be value in awaiting the outcomes of Stage 1 of the ESSF Review (est. November 2024) before the ERA makes its final determination on the Energy Offer Price Ceiling.

Further comment on ERA's draft determination, specifically as it relates to Merredin Energy's Standing Data and indexation, is provided in Attachment 1. Should you wish to discuss any of the matters raised in this submission, please contact Mena Gilchrist, Manager – WA Regulatory Affairs at [REDACTED]

Yours sincerely,

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Kate Ryan

Executive General Manager – Western Australia & Strategy

Attachment 1: Further detailed responses



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Merredin's Standing Data - 'minimum dispatchable loading level'

In its draft determination, the ERA indicates the use of Merredin Energy's 'minimum dispatchable loading level' (as specified in the Facility's Standing Data) is a major contributor to the increase in fuel costs, which comprise more than 80 per cent of the Energy Offer Price Ceiling cost stack. Further, the ERA indicates that the 'minimum generation output' (undefined) for a Frame 6B generator is more than three times the level specified in the Merredin Energy's Standing Data (p15). Supporting evidence for this assertion is not provided, including the fuel source(s) used by the machines in the comparison or how 'minimum generation output' is defined in practical terms.

As indicated in AEMO's Registration Technical Data Guide¹, the 'minimum dispatchable loading level' (Appendix 1(b)(xxi)) is defined as the 'emergency level', which is typically equal to minimum generator capacity, but may be set at a higher level.

Merredin Energy's 'minimum dispatchable loading level' was determined in 2012 under Western Power's commissioning regime, supported by a *Technical Rules Compliance Report*, comprising documents and evidence for the Standing Data. AEMO has subsequently reviewed SCADA data for the Facility, which indicates that Merredin Energy operated at its designated 'minimum dispatchable loading level' for a continuous period of seven minutes in June 2023, before ramping further. This indicates that the output assigned for this parameter in the Standing Data is a reasonable approximation of the Facility's minimum generator capacity.

Indexation

The ERA has indicated that it intends to undertake monthly indexation for fuel costs, quarterly indexation for non-fuel costs and annual loss factor adjustments.

This approach does not present AEMO with any implementation issues, and AEMO will be able to update its systems to reflect pricing inputs on a monthly basis. However, AEMO notes that monthly indexation of a highly variable price input (diesel) coupled with a requirement to round up the Energy Offer Price Ceiling value to the nearest \$100/MWh (in accordance with clause 2.26.2(b) of the WEM Rules) could result in substantial month-to-month variation in the ceiling price. As the Energy Offer Ceiling Price is an input into the FCESS Clearing Price Ceiling, this volatility may have future impacts on FCESS costs.

¹ Available at: https://aemo.com.au/-/media/files/electricity/wem/participant_information/guides-and-useful-information/wem-registration-technical-guide-v40.pdf?la=en