

30 May 2024

**Our Ref: CWF-20240530**

Economic Regulation Authority  
Level 4, Albert Facey House  
369 Wellington Street  
PERTH WA 6000

Dear Ms Bhatia

**RE: ENERGY OFFER PRICE CEILING – DRAFT DETERMINATION**

I am writing to support the Economic Regulation Authority's (ERA) findings for its 2024 Energy Offer Price Ceiling draft determination (**Determination**).

The methodology the ERA must use in its determination is outlined in clause 2.26.2 of the Wholesale Electricity Market (WEM) Rules. This clause requires the ERA to determine the Energy Offer Price Ceiling based on the supply cost of the highest cost facility operating in the South-West Interconnected System (SWIS), and to use a formula that includes various components such as Variable Operating and Maintenance costs, risk margin, and loss factor. The ERA must also round to the nearest \$100 and consider whether indexation should apply to reflect movements in input costs and determine the appropriate methodology and frequency for such indexation.

Collgar considers that the Determination was thorough and complied with the requirements of the WEM Rules. Further, the ERA's draft determination will aid in the development of renewable energy in the SWIS.

However, whilst we are supportive of the Determination under the current Rules, we believe the methodology prescribed in the Rules no-longer fit for purpose. Collgar recommends that clause 2.26.2 be examined by Energy Policy WA (EPWA) and the ERA prior to the commencement of the next review.

Collgar believe that there are several methodologies that may be employed to best determine the Energy Offer Price Ceiling. We encourage the ERA to review the options and propose a Rule Change prior to the next review process. We note that there have been fundamental shifts to the approach taken in the SWIS for considering capital recovery risk in the development of new generation in the WEM.

An outworking of any change is a shift in assessment of projected lifetime revenue when developing new Facilities for the capacity market, from a predominantly capacity based model to a hybrid energy-capacity model. This is more reliant on a higher energy price cap to ensure capital recovery and incentivise sufficient investment in new capacity that has the capability to deliver for longer than four hours.

In light of these significant market reforms, we urge the ERA to review the suitability of the mechanism proposed in the WEM Rules. This review should be conducted before the commencement of the next energy offer price ceiling determination to ensure that the market mechanism is well aligned with evolving market dynamics.

In conclusion, we support the outcomes of the ERA's draft determination and appreciate the chance to provide our input. We also consider that recent changes to fundamental principles in the WEM have resulted in the proposed mechanism no-longer being fit for purpose.

Should you have any questions, we would be more than happy to discuss the contents of this submission with you.

Yours sincerely



JAKE FLYNN

REGULATORY AND TRADING SPECIALIST