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To	Economic Regulation Authority – publicsubmissions@erawa.com.au
Subject	Draft Offer Construction Guideline
Date	1 October 2024

Good Morning

Thank you for the opportunity to comment on the draft Offer Construction Guideline issued on 5 September. As an active participant within the Short-Term Energy Market and the Real Time Market, Perth Energy has a keen interest in the efficient operation of the Wholesale Energy Market. We are keen to ensure that the market provides the lowest possible prices for our electricity customers while providing an appropriate return for capacity investors.

In general, Perth Energy supports the proposed changes to the guideline and considers that these reflect the intentions of the Rule Changes to which they relate. We do, however, have concerns or questions in respect to two matters.

The requirement for Independent expert advice for assignment of start-up costs

Start-up costs can form a substantial proportion of an offer for a generator that runs only for a relatively short time such as a firming gas turbine. Such a machine may well have market power at this time so we can understand the desire to authenticate bids by the use of an independent expert. Perth Energy contends, however, that securing sufficient advice to cover the wide range of operating situations that may arise is impractical. It could, as an extreme, prevent a facility from bidding because the precise set of circumstances being faced has not been explicitly considered.

We suggest that compliance is better approached by requiring market participants to document the general methodology through which these costs are to be estimated. In the event of a potential dispute, the ERA can review the methodology and also assess whether this had been followed in any given situation. We see this approach as having the flexibility to accommodate a range of operating scenarios while assuring the ERA that offers are efficient.

Allocation of Contingency Reserve Raise costs

The draft guideline states that these are not a valid part of a Market Participant's efficient variable costs and cannot be included in price offers but there is no indication of how these costs are to be recovered. Perth Energy notes that these costs are an integral part of operating a power station and cannot simply be carried by the Market Participant. They vary with power station output so, in our opinion, fall into the category of other variable costs.

At the briefing on Thursday, September 19, the argument was put forward that not paying these costs will encourage investment in smaller facilities which would keep total costs down. This is wrong. Larger machines will generally have lower per unit capital costs than multiple smaller units and network connections will be simpler thereby further reducing capital costs. Maintenance costs are also expected to be lower for a single large machine rather than several smaller units.

The size of a new generation plant needs to be optimised by considering both capital and operating costs and is likely to be larger as system demand, and hence installed capacity, increases. We can see this historically as machine sizes have risen from 200 MW in the 1980s through 300 MW to the current 340 MW machines. Appropriately recognising contingency reserve raise costs is an integral part of encouraging the right size of new capacity to minimise customer costs.

Should you have any questions please do not hesitate to contact me at [redacted]. This submission may be made public.

Kind regards

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