



Economic Regulation Authority

Trading conduct guideline

~~5 September 2024~~ Effective XX/XX/2025

This document provides general guidance to explain how the ERA currently proposes to interpret the WEM Rules. Courts or tribunals may make decisions that are different from the ERA's interpretation. The ERA may amend the guideline at any time as it deems necessary. Circumstances for updating the Guideline may include relevant changes in the regulatory framework, and related court or tribunal decisions.

Examples provided are for illustration only and are not exhaustive. This Guideline is not a substitute for legal, economic or other technical advice. Market Participants are encouraged to obtain legal, economic or other technical advice tailored to its specific circumstances. This Guideline does not reproduce all requirements in the WEM Rules. Market Participants are advised to refer to the WEM Rules for a full list of obligations.

Prepared by:	Energy Markets Division
Record Number:	D283736 D280720
Version:	4.22.1
Effective Date	<u>TBD</u>
Status:	
Approved for distribution and use by:	
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VERSION HISTORY

Version	Effective Date	Notes
1.12	New WEM Commencement Day	
<u>2</u>	<u>TBD</u>	Updated following FCESS review associated rule changes.

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Contents

1. Purpose of guideline	1
1.1 Interpretation	2
2. Trading conduct.....	3
2.1 STEM submissions.....	3
2.2 Real-Time Market submissions	3
2.3 Monitoring.....	4
3. Prohibited conduct	5
3.1 False, misleading or deceptive	5
3.2 Fraudulent, dishonest or in bad faith	8
3.3 Distorting or manipulating prices	10
1. Purpose of guideline	1
1.1 Updating the guideline.....	1
2. Trading conduct	2
2.1 STEM submissions.....	2
2.2 Real Time Market submissions	2
2.3 Monitoring.....	3
3. Prohibited conduct	4
3.1 False, misleading or deceptive	4
3.2 Fraudulent, dishonest or in bad faith	7
3.3 Distorting or manipulating prices	9

List of appendices

Appendix 1 List of Examples	1	List	of
Examples	14		

1. Purpose of guideline

~~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 (ERA) is responsible for monitoring and enforcing compliance with the WEM Rules. Market Participants are required to comply with the general trading obligations⁴ in section 2.16A of the WEM Rules and the price offer requirements in section 2.16C.⁵ ~~These obligations to comply is are~~ binding on all participants in the Short Term Energy Market (STEM) and Real-Time Market, which includes the energy and the Frequency Co-optimised Essential System Services (FCESS) markets.

The ERA maintains this Trading Conduct Guideline under WEM Rule⁶ 2.16D.1(b) to provide regulatory guidance on Market Participants' general trading obligations under WEM Rule 2.16A:

~~The ERA is publishing the Trading Conduct Guideline and the Offer Construction Guideline to provide regulatory guidance on the general trading obligations. This document aims to provide clarity and guidance regarding the prohibited conduct described in WEM Rule 2.16A.3:~~

A Market Participant must not engage in conduct in the STEM or Real-Time Market that:

- (a) is false, misleading or deceptive, or likely to mislead or deceive;
- (b) is fraudulent, dishonest or in bad faith; or
- (c) has the purpose, or has or is likely to have the effect, of distorting or manipulating prices in the Wholesale Electricity Market.

Terms that are capitalised in this guideline are defined terms in Chapter 11 (Glossary) of the WEM Rules.

~~This document provides general guidance to explain how the ERA currently proposes to interpret the WEM Rules. Courts or tribunals may make decisions that are different from the ERA's interpretation. The ERA may amend the guideline at any time as it deems necessary. Circumstances for updating the Guideline may include relevant changes in the regulatory framework, and related court or tribunal decisions.~~

~~Examples provided are for illustration only and are not exhaustive. This Guideline is not a substitute for legal, economic or other technical advice. Market participants are encouraged to obtain legal advice tailored to their specific circumstances. This Guideline does not reproduce all requirements in the WEM Rules. Market Participants are advised to refer to the WEM Rules for a full list of obligations.~~

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 2024, [\(online\)](#).~~

⁴ ~~[Clause Market Rule 2.16A Wholesale Electricity Market Rules \(WA\)](#), 27 July 2024, [\(online\)](#), in the [Consolidated Companion WEM Rules](#), 22 July 2023, [\(online\)](#).~~

⁵ [Guidance on formulation of price offers is provided by the ERA in the Offer Construction Guideline published and maintained by the ERA under WEM Rule 2.16D.1\(a\)](#)

⁶ [Wholesale Electricity Market Rules \(WA\)](#), [\(online\)](#).

1.1 ~~Updating the guideline~~Interpretation

~~The ERA may amend this guideline at any time following a public consultation process, as specified in WEM Rules 2.16D.2 to 2.16D.4.~~In this Guideline, unless the contrary intention is expressed:

- terms used have the same meaning as those given in the WEM Rules (made pursuant to the *Electricity Industry (Wholesale Electricity Market) Regulations 2004*) “**WEM Regulations**”;
- 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;
- a reference to the WEM Rules, WEM Procedures or Trading Conduct Guideline includes any associated forms required or contemplated by the WEM Rules or WEM Procedures;
- words expressed in the singular include the plural and vice versa;
- the term ‘breach’ used in this document also refers to the terms non-compliance and contravention which are also used in the WEM Rules and WEM Regulations; and
- the terms ‘alleged breach’ or ‘suspected breach’ are both used in the WEM Rules to refer to matters where the ERA or a Rule Participant forms the view that it has sufficient information to reasonably suspect a breach of the WEM Rules and/or WEM Procedures has occurred, but where the ERA has not yet made a determination that a breach has occurred. For the avoidance of doubt, where the ERA has used the term ‘suspected breach’ in this document it also refers to ‘alleged breaches’ in the WEM rules.

References in this Guideline to the WEM Rules are to the WEM Rules as in force at 20 November 2024.

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

2. Trading conduct

The general trading obligations apply to all Market Participants in the STEM and Real-Time Market, including the FCESS markets. This requirement includes Market Participants that:

- offer to supply energy or FCESS
- supply energy or FCESS
- fail to offer to supply energy or FCESS
- fail to supply energy or FCESS.

A Market Participant can demonstrate compliance by keeping records that establish the process it undertakes in relation to each of these activities.

When monitoring compliance with WEM Rule 2.16A.3 and assessing conduct, the Market Participant's behaviour, the purpose of that behaviour and the effect of the behaviour will be considered.

Historical STEM or Real-Time Market Submissions, timeliness and accuracy of notification of Forced Outages may also be taken into account. Offers and conduct not assessed through the ~~market power~~ Materiality Test in WEM Rule 2.16C for breach of the general trading obligations may also be investigated.

2.1 STEM submissions

The STEM is a centrally coordinated forward market that allows Market Participants to trade around their bilateral positions. Market Participants may submit financially binding offers into the STEM up to seven days prior to the trading day (WEM Rule 6.2.1).

When monitoring compliance with 2.16A.3 in the STEM, the level of uncertainty expected to be found in making offers several days in advance of the STEM auction will be considered.

The ERA's assessment of STEM offers will also consider the submission at the close of the STEM submission window.

2.2 Real-Time Market submissions

Real-Time Market Submissions are made in respect to a Registered Facility, a Market Service and a Dispatch Interval.

A Market Participant makes Market Submissions to the Real-Time Market for each Dispatch Interval in the Week-Ahead Schedule Horizon for the following Market Services:

- Energy, for each of its Scheduled Facilities, Semi-Scheduled Facilities and Non-Scheduled Facilities, and
- For each FCESS, for each of its Registered Facilities that is accredited to provide FCESS.⁷

Participation in the Real-Time Market for energy is mandatory for Market Participants that hold Capacity Credits in respect to any of their Registered Facilities. Participation in the FCESS markets ~~is~~ was mandatory for the first six months after the New WEM Commencement Day

⁷ Week-Ahead Schedule Horizon is the seven-day (336 Pre-Dispatch Intervals) period prior to a dispatch.

for those Market Participants that had facilities providing any of load following, spinning reserve and load rejection reserve ancillary services in the existing market.⁸ However, since 1 April 2024, it is no longer mandatory for a facility to accredit for FCESS if it had previously been accredited to provide the equivalent ancillary service or participate in the FCESS market.

2.3 Monitoring

The ERA's Monitoring Protocol [WEM Procedure](#) sets out how the ERA will monitor, investigate and enforce compliance.⁹ The ERA will conduct any investigation of a suspected breach of the general trading obligations in accordance with the Monitoring Protocol ~~WEM Procedure~~.

When considering whether a Market Participant has engaged in conduct prohibited by WEM Rule 2.16A.3, the following may be considered:¹⁰

- (a) Historical STEM Submissions or Real-Time Market Submissions made by the Market Participant with effect on or after the New WEM Commencement Day, including changes to STEM Submissions and Real-Time Market Submissions in which there is, or there appears to be, a pattern of behaviour that may indicate conduct prohibited by WEM Rule 2.16A.3.
- (b) The timeliness and accuracy of notification of Forced Outages by the Market Participant.
- (c) Information regarding whether the Market Participant did not comply with a Dispatch Instruction in respect of its Facility and the reasons for the non-compliance.
- (d) Any other information the ERA considers relevant to its determination.

A Market Participant's behaviour may contravene more than one sub clause of 2.16A.3. In addition, behaviour that contravenes WEM Rule 2.16A.3 may contravene other WEM Rules. A Market Participant does not need to intend to cause harm or to obtain a benefit to breach WEM Rule 2.16A.3. For example, unintended mistakes that lead to inaccurate information being provided could be considered a breach of WEM Rule 2.16A.3.

The ERA may also use information gathered under its monitoring of ~~the price offers~~ [obligations](#) (in [accordance with](#) WEM Rule 2.16C.4) to monitor compliance with WEM Rule 2.16A.3. The Offer Construction Guideline outlines the information Market Participants are expected to retain to demonstrate compliance with WEM Rule 2.16C.5.¹¹

⁸ Obligations are set out in the transitional arrangements in section 1.49 of the WEM Rules, ([online](#)).

⁹ Economic Regulation Authority, [2024](#), Monitoring Protocol WEM Procedure, ([online](#)). ~~The ERA is in the process of amending this document to be consistent with the EPWA's Exposure Draft.~~

¹⁰ ~~WEM Rule 2.16A.4 Wholesale Electricity Market Rules (WA), 27 July 2024~~ 20 November 2024, WEM Rule 2.16A.4 ([online](#)), in the ~~Consolidated Companion WEM Rules, (online)~~.

¹¹ Economic Regulation Authority, ~~2023~~ [2024](#), Offer construction guideline ([online](#)). ~~The ERA is in the process of amending this document to be consistent with the EPWA's Exposure Draft.~~

3. Prohibited conduct

The following conduct is prohibited by WEM Rule 2.16A.3:

1. conduct that is false, misleading or deceptive, or likely to mislead or deceive
2. conducts that is fraudulent, dishonest or in bad faith
3. conduct that has the purpose or effect of distorting or manipulating prices.

A breach of WEM Rule 2.16A.3 may occur due to the purpose or intent of the Market Participant's conduct, or due to the effect, or likely effect of that conduct. The compliance monitoring process in relation to WEM Rule 2.16A.3 will consider the effect of a Market Participant's trading conduct on other Market Participants as well as the WEM.¹²

The following sections provide explanations of the terms used in WEM Rule 2.16A.3 and examples to illustrate prohibited conduct.

3.1 False, misleading or deceptive

A Market Participant must not engage in conduct in the STEM or Real-Time Market that is false, misleading or deceptive, or likely to mislead or deceive (WEM Rule 2.16A.3(a)).

Participants may not disclose information that at the time the information was disclosed was false, misleading or deceptive, or likely to mislead or deceive when taken in the context of activities in the STEM and Real-Time Market. This includes information disclosed to the market operator, regulator, or other Market Participants.

A Market Participant may be in breach of WEM Rule 2.16A.3(a) if the participant's conduct:

- Is intentionally false, misleading or deceptive or
- Is false, misleading or deceptive, or likely to mislead or deceive, regardless of the participant's intent.

The term 'likely', means a real chance of the effect arising because of the Market Participant's conduct. In monitoring compliance with WEM Rule 2.16A.3(a), the purpose of the conduct and the effect, or likely effect, of the conduct on the market will be considered. Where the ERA determines that a participant's conduct misled or deceived a market stakeholder, or had a real chance of misleading or deceiving, the ERA will not need to also determine that the Market Participant intended to mislead or deceive to demonstrate a breach of WEM Rule 2.16A.3(a).

¹² WEM Rule 2.13.42 specifies the matters the ERA must have regard to when deciding to issue a civil penalty notice. For further information see section 6.2 of the Monitoring Protocol: Economic Regulation Authority, ~~2023~~2024, Monitoring Protocol, ([online](#)).

Example 1: Timing of generator outage

Generator D operates three generators, making up a Material Portfolio in the Real-Time Market for energy. On a hot summer day, electricity demand is high and the WEM has little capacity in reserve. Generator D shuts down one of its plants (or restricts the output of the plant for a reason unrelated to a genuine outage) and takes that power plant offline for the day, claiming an unplanned outage had occurred and the maintenance had to be done immediately.

However, Generator D knew if it took one plant offline (or restricted the output of the plant) on this particular day, prices would spike, and the other two plants would make more revenue than if all three plants were operating. Generator D is likely to have engaged in false, misleading and deceptive behaviour with the purpose of distorting or manipulating prices, in breach of WEM Rules 2.16A.3(a) and 2.16A.3(c).¹³

When the ERA identifies conduct that is false, misleading or deceptive, or likely to mislead or deceive, a Market Participant's intention to mislead or deceive is likely to be treated as an aggravating factor. If a Market Participant does not have reasonable grounds for a price, quantity, or Ramp Rate Limit it included in a Real-Time Market submission at the time it submits that Real-Time Market submission, then the Market Participant is, taken to have known the submission was likely to lead to another participant being misled or deceived as to the existence or non-existence of a material fact relating to the Real-Time Market (WEM Rule 2.16A.7).

¹³ Adapted from, Commonwealth of Australia, Revised Explanatory Memorandum, Treasury Laws Amendment Bill 2019, p.23 ([online](#)).

Example 2: Market Participant false heat rate

A hypothetical Market Participant has a Material Portfolio including a 105 MW gas-fired peaking generator. The Market Participant expects to clear as the marginal plant in the Real-Time Market for energy for 60 MW and at a cost of ~~is~~ \$96.80/MWh for those 60MW.

If it offered its Price-Quantity Pair offers in the Real-Time Market for energy in a manner consistent with an Economic Price Offer—and based off correct technical information, it would make a single Price-Quantity Pair offer in the Real-Time Market for energy of 105 MW at \$96.80/MWh, based on expected electricity production of 60 MW.

This Market Participant is the price-setting facility, so the Real-Time Market for energy would clear at \$96.80/MWh.

However, the Market Participant falsifies its technical heat reports and adds 100 GJ/hour to its heat rate curve at all levels of production. It submits the false heat rate curve to the ERA in its information provision under 2.16C.3(b).

The Market Participant's offer as a result of that heat rate curve is a single Price-Quantity Pair offer in the Real-Time Market for energy of 105 MW at \$106.80/MWh.

The clearing price for energy in the Real-Time Market for energy price becomes \$106.80, an increase of \$10/MWh over and above what it would have been if the Market Participant did not falsify its technical reports.

This Market Participant's behaviour may be an Irregular Price Offer under WEM Rule 2.16C.6.

In addition to the false information provision, evidence emerges that reveal the inflation of the Market Participant's heat rates and offers was a deliberate strategy to inflate prices in the Real-Time Market for energy.

The Market Participant's behaviour in submitting its Price-Quantity Pair offer in the Real-Time Market for energy is false, misleading or deceptive in violation of WEM Rule 2.16A.3(a), fraudulent, dishonest and in bad faith in violation of WEM Rule 2.16A.3(b) as well as it has the purpose and effect of distorting or manipulating prices in violation of WEM Rule 2.16A.3(c).

Each Market Participant is obligated to retain evidence of its reasonable grounds for including a price, quantity or Ramp Rate Limit, as applicable, in its Submission (WEM Rule 2.16A.8). However, retaining evidence is not sufficient to demonstrate the Market Participant had reasonable grounds for its submission, or that its representation or conduct was not misleading (WEM Rule 2.16A.9). Other sources of information will also be considered to assess the Market Participant's conduct.

If a market participant bases its offers on reliable external information or forecasts and this information turns out to be incorrect, for example a weather forecast, the Market Participant is unlikely to be considered in breach of WEM Rule 2.16A.3(b) for its use of external information in good faith.

3.2 Fraudulent, dishonest or in bad faith

A Market Participant must not engage in conduct in the STEM or Real-Time Market that is fraudulent, dishonest or in bad faith (WEM Rule 2.16A.3(b)).

A Market Participant would be acting fraudulently, dishonestly or in bad faith where its conduct was aimed at obtaining a financial or competitive advantage by unlawful or unfair means, or involved wrongdoing in relation to the WEM. Generators provide information to the market when making offers and when choosing not to offer. For example, when making an offer a Market Participant is representing to the market that it intends to dispatch a certain quantity of electricity at a certain price. If, at the time of making the offer, the Market Participant does not intend to honour the offer, this is likely to be considered dishonest conduct.

When monitoring compliance with WEM Rule 2.16A.3(b), the genuine intention of a Market Participant will be considered. A STEM or Real-Time Market submission is not made in bad faith if, at the time it is submitted, the Market Participant had a genuine intention to honour the terms of that Submission if the material conditions and circumstances upon which the submission was based remained unchanged until the relevant Trading Interval (WEM Rule 2.16A.5).

Example 3: Rebidding for real time outage

At 2:10pm Market Participant H's generator, currently running at 100 MW, trips unexpectedly (or alternatively the trader becomes aware that the generator will trip shortly for an urgent maintenance). Market Participant H's trader as soon as practical revises its offers to make its generator unavailable following the trip.

Market Participant H has experienced an unexpected event and pursuant to WEM Rule 7.4.2(a) has taken action to ensure that its offers reflect its reasonable expectation of its generator's capability to be dispatched.

While a higher priced generator may have been dispatched next to cover the energy that was to be provided by Market Participant H, and this may have impacted market clearing prices, this is the normal functioning of the market and not a failure to supply by the Market Participant with the intent to act fraudulently, dishonestly or in bad faith, or to distort or manipulate prices.

The intention of a Market Participant in making a STEM or Real-Time Market submission may be assessed through inference from (WEM Rule 2.16A.6):

- the conduct of the Market Participant;
- the conduct of any other person; or
- the relevant circumstances.

Example 4: Fraudulent, dishonest, or in bad faith conduct

Market Participant A declares itself 'in-service' for a series of Dispatch Intervals between 4pm and 8pm on the following day in the Real-Time Market for energy by offering its capacity of 100 MW into the market in a single Price-Quantity Pair at \$50/MWh.

The facility forecast dispatch indicates it to be the marginal or price-setting Market Participant. In doing so it deters Market Participant B, who would have offered into the market at \$70/MWh. Market Participant B reasonably concludes that – given its supply cost – its facility will be very unlikely to be dispatched and offers its capacity as 'available' for the period.

At 9am the following day Market Participant A learns that its available capacity for the 4pm to 8pm period will be 50 MW. Market Participant A expects there will be a large impact on the spot price during the 4pm to 8pm period resulting from its outage. Market Participant A wants to maximise the price it receives for the capacity it is able to use and considers the increase in prices would be more substantial the closer to the real-time dispatch it declares its outage, because other market participants would have a shorter time to re-schedule their operation and update their offers before dispatch.

Accordingly, Market Participant A does not update its offer at 9am and instead updates its Real-Time Market for energy submission close to the gate closure for offers, by declaring an outage. The Real-Time Market for energy price rises to \$80/MWh. Market Participant A is subject to capacity refunds for the outage.

This is an example of conduct that is fraudulent, dishonest, or in bad faith and for the purpose of distorting or manipulating prices.

Example 5: Change in available capacity¹⁴

Market Participant A in the previous example declares itself as 'in-service' for the Dispatch Intervals between 4pm and 8pm on the following day. At 9am the following day it becomes aware that half of its capacity will not be available during the 4pm to 8pm period.

However, Market Participant A does not expect this change in its available capacity would have any material impact on the spot price during the 4pm to 8pm period. Market Participant A considers other Market Participants will incur additional costs to source additional fuel through short-term gas market arrangements if they learn they will be called on to provide additional capacity at short notice. Market Participant A does not update its offer and 'capacity type' flag to reflect its expected capability for the period until close to gate closure.

Market Participant A's conduct in failing to update its available capacity and offers when it became aware of the change in circumstances was in bad faith and may constitute a breach of WEM Rule 2.16A.3(c).

¹⁴ Adapted from: ACCC, *Guidelines on Part XICA: Prohibited conduct in the energy market* May 2020, Example 22, ([online](#)).

3.3 Distorting or manipulating prices

Distorting or manipulating prices may undermine competition in the WEM and increase the cost of electricity for end consumers. A Market Participant must not engage in conduct in the STEM or Real-Time Market that has the purpose, or has or is likely to have the effect, of distorting or manipulating prices in the WEM (WEM Rule 2.16A.3(c)).

Example 6: FCESS market offer calculation¹⁵

This example considers the dispatch of Regulation Raise service during a Dispatch Interval with the following system requirements:

- Energy demand: 100 MW
- Regulation Raise requirement: 25 MW.

For simplicity, this example assumes two Market Participants participate in the market to supply the energy and Regulation Raise services.

Market Participant A with a 50MW gas-fired generator makes the following offers:

- one in the Real-Time Market for energy of 50 MW at negative \$1000/MWh
- one in the Real-Time Market for Regulation Raise of 50MW at \$0/MW.

Market Participant A's cost of producing energy is \$100/MWh, but its operator knows that, in certain circumstances, an offer of negative \$1,000/MWh will increase its Regulation Raise revenue over and above what it would be if it offered \$100/MWh.

Market Participant B with a 100 MW gas-fired generator makes the following offer:

- one in the Real-Time Market for energy of 100 MW at \$500/MWh

Market Participant B does not provide any Regulation Raise service.

The dispatch algorithm for the WEM calculates the clearing price for the Regulation Raise market based on the incremental cost to the power system from increasing the ESS requirement by one more unit.

Market Participant A's energy offer below its cost of production increases the clearing price of the Regulation Raise to \$1,500/MW. This price is substantially larger than \$400/MW that the dispatch engine would have calculated based on Market Participant A's true cost of producing energy.¹⁶

Market Participant A's energy offer price is below its cost of production and does not result in a breach of WEM Rule 2.16C.5 as outlined in the ERA's Offer Construction Guideline.¹⁷ However, Market Participant A's conduct is an example of conduct that has the purpose, or has or is likely to have the effect, of distorting or manipulating prices in the FCESS markets, which is a breach of WEM Rule 2.16A.3(c).

¹⁵ This example is based on Energy Transformation Taskforce, 2019, Essential System Services, Scheduling and Dispatch, Example 1, Attachment C, ([online](#)).

¹⁶ The Regulation Raise clearing price will be capped based the ceiling price applicable to the service. The example does not include the effect of the price ceiling to demonstrate the underlying problem explained through the example.

¹⁷ Economic Regulation Authority, 2024~~3~~, Offer Construction Guideline, pp. 33-34 ([online](#)).

Example 7: Withholding capacity for the purpose of distorting FCESS prices

A Market Participant makes a single Price-Quantity Pair offer into the Real-Time Market for energy of 105 MW. It has also capacity to make a single Price-Quantity Pair offer of 45 MW into the Contingency Reserve Raise Real-Time Market.

However, the Market Participant offers only 30 MW into the Contingency Reserve Raise FCESS market, with the same Real-Time Market for energy offer as before.

Because Market Participant A's Price-Quantity Pair offer into the Contingency Reserve Raise market was 30 MW, rather than an offer of 45 MW, the Real-Time Market for Contingency Reserve Raise increases relative to what it would have been.

Market Participant A's decision not to offer the additional 15 MW into the Contingency Reserve Raise market could be a breach of WEM Rule 2.16A.3(c) if it had the purpose, or is likely to have the effect, of distorting or manipulating prices in the WEM.

Example 8: Withdrawing capacity for the purpose of distorting FCESS prices

A market participant operates a facility that is accredited to provide ROCOF control services, as well as regulation raise and lower services. This facility finds itself trapped within its trapezium with the pre-dispatch schedule indicating it will only be cleared for ROCOF control service. The pre-dispatch schedule indicates the energy market will clear below the facility's EVC. It would not be able to recover its operating costs.

In this instance, the facility moving its capacity from 'in-service' to 'available', the market participant would not induce a shortfall (as defined under Market Rule 7.4.2C(b)) in energy, contingency raise or regulation raise and consequently meet the conditions to remain in service under market rule 7.4.2C. The market participant changes the capacity type flag in its offer from 'in service to 'available' and decommits the facility from the market.

The market participant's decision to withdraw facility from service is not considered a breach of WEM Rule 2.16A.3(c) as it did not have the purpose, nor was likely to have the effect, of distorting or manipulating prices in the WEM.

Example 89: Withholding capacity for the purpose of distorting energy prices

A Market Participant operates three facilities in the market. It has various costs for its facilities ranging from \$40 to \$100 per MWh as per the following table.

Facility	Capacity	Efficient variable cost
1	50MW	\$40/MWh
2	50MW	\$50/MWh
3	50MW	\$100/MWh

The pre-dispatch schedule indicates all three facilities would be in-merit such that they can dispatch their entire output range. However, the Market Participant considers it can benefit from a higher market clearing price if it does not move all of the facilities into service. It changes the 'capacity type' flag for facilities 1 and 2 from 'available' to 'in-service' and leaves the capacity type flag for facility 3 as 'available'. The market clears higher as a result of withholding facility 3.

This Market Participant's conduct in changing the offers has influenced pricing and had the purpose, or is likely to have the effect, of distorting prices and may constitute a breach market rule 2.16A.3.

Example 910: Selective application of avoidable fixed costs

A Market Participant operates a facility which brings forward major maintenance costs each time it starts, leading to greater maintenance costs over the life of the machine, as detailed in Section 3.4 of the ERA's Offer Construction Guideline. The market participant can recover these costs by averaging them over its operational output.

This avoidable fixed maintenance cost adds on average \$3/MWh over the output of the facility. During the week, this facility is typically able to clear for three hours per day over the late afternoon evening peak period. It is the price-setting generator for around a third of the time.

The Market Participant considers it can benefit by selectively recovering the cost when it is the price-setting generator and instead of averaging these costs over all intervals, it opts to recover them only during intervals where it sets the Real-Time-Price for energy. This increases the average cost to around \$11/MWh if applied only over the typical output when the facility is marginal.

This has the purpose, or is likely to have the effect, of distorting prices and may constitute a breach market rule 2.16A.3.

Where the conduct of a Market Participant seeks to undermine the process by which Market Participants would reasonably expect prices to be determined in a competitive market, this conduct may be considered as having the purpose to distort or manipulate prices.

For example, although price offers to the STEM and Real-Time Market may be below production cost of services (as indicated in the Offer Construction Guidelines) and such offers would not result in a breach of WEM Rule 2.16C.5, the offers may constitute a breach of WEM Rules 2.16A.3(b) and 2.16A.3(c) if those offers relate to 'predatory pricing'. A commercial entity generally does not sell its products below the cost of producing the product. However, offers below cost of supply may occur when a Market Participant aims to lessen competition. For example, offers below cost of supply may reduce product prices and deter the entry of new market participants.

When monitoring compliance with WEM Rule 2.16A.3(c), the purpose, the effect and the likely effect of a participant's conduct will be considered. The purpose is equivalent to the intention and may be inferred from the participant's conduct. As mentioned in section 3.1, likely effect means a real chance of the effect arising. Manipulation indicates that the Market Participant intended to knowingly disadvantage third parties or the market.

Example 11: Predatory pricing

A Market Participant with substantial wholesale market share is aware that a competitor is considering actively considering a new investment in the market, which it considers may reduce wholesale market prices in the long run.

The Market Participant considers that if it could reduce wholesale market prices in the short-term, it would be able to influence the profit expectation of the competitor and thereby deter the competitor from making an investment.

The market participant reduces its offers into the wholesale market from a substantial portion of its fleet during the times of day when its investment and that of its competitor's investment are expected to earn revenue. This reduces the real time market price for energy during the time periods and the revenue expectations from the investment.

The competitor does not enter the market, and the Market Participant resumes its old (higher) pricing behaviour.

Such conduct in this context would be in bad faith and likely to have the effect of distorting or manipulating prices, in breach of WEM Rules 2.16A.3(b) and 2.16A.3(c).

Appendix 1 List of Examples

Example 1: Timing of generator outage	6
Example 2: Market Participant false heat rate	7
Example 3: Rebidding for real time outage	8
Example 4: Fraudulent, dishonest, or in bad faith conduct	9
Example 5: Change in available capacity	9
Example 6: FCESS market offer calculation	10
Example 7: Withholding capacity for the purpose of distorting FCESS prices	11
Example 8: Withdrawing capacity for the purpose of distorting FCESS prices	11
Example 9: Withholding capacity for the purpose of distorting energy prices	12
Example 10: Selective application of avoidable fixed costs	12
Example 11: Predatory pricing	13
Example 1: Timing of generator outage	5
Example 2: Market Participant false heat rate	6
Example 3: Rebidding for real time outage	7
Example 4: Fraudulent, dishonest, or in bad faith conduct	8
Example 5: Change in available capacity	8
Example 6: FCESS market offer calculation	9
Example 7: Withholding capacity for the purpose of distorting FCESS prices	10
Example 8: Withholding capacity for the purpose of distorting energy prices	10
Example 9: Selective application of avoidable fixed costs	11
Example 1: Timing of generator outage	5
Example 2: Market Participant false heat rate	6
Example 3: Rebidding for real time outage	7
Example 4: Fraudulent, dishonest, or in bad faith conduct	8
Example 5: Change in available capacity	8
Example 6: FCESS market offer calculation	10
Example 7: Withholding capacity for the purpose of distorting FCESS prices	11