

WHOLESALE ELECTRICITY MARKET

Submission to Procedure Change Proposal

AEPC_2020_01

Revisions to the Balancing Merit Order tie-break methodology

Submitted by	
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Submission

Clause 2.10.7 of the Wholesale Electricity Market Rules provides that any person may make a submission for a Procedure Change Proposal (including proposals developed by AEMO, the Economic Regulation Authority or the Rule Change Panel) by completing this Procedure Change Submission form.

Submissions should be provided by email to the nominated contact in the call for submissions published with the Procedure Change Proposal.

Please provide your views on the Procedure Change Proposal, including any objections or suggested revisions

Perth Energy has sympathy for AEMO's difficulty in dispatching the market in unusual circumstances, in particular those associated with low demand events, such as the event in October 2019 which prompted this Procedure Change Proposal.

We have strongly advocated for a new real time dispatch engine since 2016, along with other proposed changes such as reduced Balancing Gate Closure, that would allow improved forecasting, bidding and dispatch outcomes. These initiatives, if they had been progressed, would have reduced AEMO's difficulty in operating the system in a secure and reliable way.

In 2018, in response to being frequently dispatched to produce quantities below our minimum generation, Perth Energy advocated for AEMO to use minimum generation quantities provided in Standing Data for the construction of all Dispatch Instructions. However, this was not progressed on the basis that it would need to be aligned with the introduction of the new dispatch engine.

This Procedure Change Proposal now seemingly introduces what we were advocating for two years ago, as it enables Market Participants to offer multiple tranches of energy at the price caps. In doing so, it will allow AEMO to distinguish a Facility's minimum generation from the remainder of its available generation to help it determine the dispatch order where energy is bid at the same price.

While we support the increased transparency and granularity in relation to identifying minimum generation quantities, we are concerned about the following aspects of the proposal:

- It is unclear how the proposed changes align with, or will replace the existing principle whereby energy production efficiency is determined by transport losses through a loss factor adjusted merit order.
- The proposed changes are likely to keep the older, less flexible Facilities running in preference to newer, more agile plant. This is not consistent with the direction of the reforms and new market arrangements which are looking to provide efficient exit signals. While the current random number generator is far from perfect, it does not embed a perverse market outcome in our current or potentially future market arrangements.
- The proposed changes appear to allow AEMO more, un-documented discretion over dispatch outcomes. There are existing processes in place to prevent or manage system security events, which should be used for events such as those that AEMO has used to justify this Procedure Change Proposal.
- In the current context of continued, significant market reforms, Perth Energy is concerned that the proposed changes have the potential to be inconsistent with the direction of WEM reforms, and/or cement ill-considered processes from the current market arrangements into the new market design unnecessarily.

Please provide an assessment whether the Procedure Change Proposal is consistent with the Market Objectives and the Wholesale Electricity Market Rules.

AEMO's Procedure Change Proposal has not justified the need for any changes to the Market Procedure: Balancing Facility Requirements or Market Procedure: Balancing Market Forecast ahead of the new market arrangements in 2022.

The Procedure Change Proposal appears to be justified as necessary on the basis of a single event, that could have resulted in a system security issue but didn't. AEMO has not adequately assessed the likelihood or consequence of the risk event to justify the proposed

changes. AEMO has not provided an assessment of how frequently the loss factor adjusted bid of multiple Facilities would result in a tie at the floor price.

Moreover, AEMO has not provided details of any alternate methods of addressing the risk considered in its assessment of the optimal solution. For example, we would expect AEMO could re-dispatch the Synergy Balancing Portfolio. AEMO could also use its discretion to maintain system security by dispatching these Facilities in an order other than the BMO including to avoid a High Risk Operating State. We would expect that these provisions would allow AEMO to constrain intermittent generators at the expense of less flexible generators using the minimum generation quantities provided in Standing Data.

While the proposed changes may appear reasonable, it is a significant departure from the current random number generator and will embed perverse signals to retain and protect older, inflexible Facilities at the expense of more agile plant. While this may need to be done for reasons of maintaining system security, there are processes and procedures in place for this to happen, and it should only be done as the exception, not the rule.

Perth Energy considers the proposed changes would not result in efficient market outcomes, would prevent the efficient entry of new competitors and increase the cost of energy over the long-term for customers. The proposed changes would therefore be inconsistent Wholesale Market Objectives (a), (b) and (d).

Please indicate if the Procedure Change Proposal will have any implications for your organisation (for example changes to your IT or business systems) and any costs involved in implementing these changes.

This Procedure Change Proposal will have minor operational and system changes for Perth Energy.

Please indicate the time required for your organisation to implement the changes, should they be accepted as proposed.

Our changes could take up to 2 months to implement under current Covid19 restrictions.