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AEMO
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Dear AEMO

2020 Energy Price Limits

Synergy welcomes the opportunity to comment on the 2020 Energy Price Limits Review (Draft Report).

AEMO has engaged Marsden Jacob Associates Pty Ltd (Marsden Jacob), an independent consultant, to assist AEMO in preparing the Draft Report for the annual review of the Energy Price Limits for 2020. In their review, Marsden Jacob has used the historical average maximum monthly gas prices (spot prices) from the gasTrading website to forecast the 2020-21 gas commodity price.

Synergy is strongly opposed to this approach as utilisation of gas prices from the gasTrading Australia website will result in a material underestimation of actual gas commodity prices and recommends that actual Market Participant gas prices should be used instead.

Wholesale Electricity Market (WEM) Rules:

Synergy considers that the usage of an estimate of the spot prices for non-firm gas (or another estimate of the prevailing market price of gas) as the price of gas fuel in its proposed 2020 the Maximum STEM Price (Gas Facility Price Cap):

- **Is inconsistent with the Market Rules**
Clause 6.20.7 of the Market Rules requires AEMO to set the Gas Facility Price Cap based on the actual costs of gas used in gas fired facilities in the WEM as failure to do so results in a 'missing money' problem where participants are unable to recover their efficiently procured actual gas costs from the price caps. This market outcome is not consistent with the WEM Objectives;
- **Possibly exposes Market Participants to the risk of non-compliance with the Competition and Consumer Act 2010 (CCA)**
To the extent the Gas Facility Price Cap is set too low to enable a Market Participant to reflect its actual costs, the market participant could also be in a position where it may breach the market power mitigation measures in the CCA; and
- **May result in non-compliance with STEM and Balancing obligations**

Usage of gas prices materially below actual gas prices may render Market Participants, who do not have access to gas at these prices (\$2/GJ), non-compliant with:

- **Clause 6.6.3:** This clause prohibits Market Participants from offering prices in the STEM that are above or below their reasonable estimate of Short Run Marginal Cost (SRMC) where the behaviour relates to Market Power. Specifically, if a Market Participant does not have access to \$2/GJ gas, but is restricted from offering prices into the STEM above the Gas Facility Price Cap that has been set based on them having access to \$2/GJ gas, they may be required to offer prices below their reasonable expectation of SRMC for their gas fired Facilities; and
- **Clause 7A.1.5 and 7A.2.8(c):** These clauses require Market Participants to take the Balancing Market Objectives into account when they undertake obligations under Chapter 7A. Relevantly, clause 7A.1.3(c) states that a Balancing Market Objective is to “establish a Balancing Price which is consistent with dispatch”. Clause 7A.2.8(c) requires Market Participants to submit prices that accurately reflect the prices they intend to have their Balancing Facilities participate in the Balancing Market. Therefore, if the Gas Facility Price Cap is too low, a Market Participant may not be able to comply with both 7A.1.5 and 7A.2.8(c).

Prevailing Market Price not Spot Market Price

To the extent clause 6.20.7 allows AEMO to use a market price when calculating the Maximum STEM Price (being the Gas Facility Price Cap), AEMO is required to use the prevailing market price rather than the spot price for non-firm gas. Specifically, Synergy notes that:

- The \$2/GJ is based on a single data source for non-firm gas and is based on a very small volume (as stated in the Draft Report AEMO is relying on its proposed Gas Facility Price Cap, the \$2/GJ value is based on only 0.5 to 2% of the Western Australian demand for gas, page 34);
- The \$2/GJ is inconsistent with other data sources that are based on significantly larger volumes (e.g. Department of Mines, Industry Regulation and Safety (DMIRS)) and provide more reliable evidence of the actual market price of gas currently and what it will be for the duration that Gas Facility Price Cap will apply. Synergy further notes that figures published by the DMIRS are referenced in the 2019 Western Australia Gas Statement of Opportunities (2019 GSOO) as a representation of “actual WA domestic gas prices”;
- Gas prices available on the gasTrading website are not reflective of actual fuel costs required by generators in the Wholesale Electricity Market (WEM) and assumes that generators in the WEM acquire the majority of their fuel on the spot market. In reality, the Certification of Reserve Capacity process requires generators to procure a longer term firm fuel contracts. These longer term firm fuel contracts typically trade at a significant premium to current spot prices; and

- Clause 6.20.7 also requires “fixed” fuel costs to be included in the calculation of the Gas Facility Price Cap. Synergy is unable to see how AEMO has reflected this requirement in its estimation of a \$2/GJ gas price.

A Gas Facility Price Cap based on \$2/GJ will not be sufficient to enable Market Participants to recover their actual costs of producing electricity and is inconsistent with the Market Rules. Synergy strongly recommends AEMO utilise actual gas costs provided by Market Participants, or at a minimum, the quarterly price published by the DMIRS.

Should you require additional information regarding this submission, please contact Jo-Anne Chan, Senior Regulatory Analyst, at jo-anne.chan@synergy.net.au.

Yours sincerely

A handwritten signature in black ink, appearing to read 'Andrew Everett', with a stylized flourish at the end.

ANDREW EVERETT
MANAGER ENERGY TRADING