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29 August 2022

Ms Dora Guzeleva  
Director Wholesale Markets  
Energy Policy WA  
Email: energymarkets@dmirs.wa.gov.au

Dear Dora,

### **Proposed Design of the Market Power mitigation Strategy**

The Australian Energy Market Operator (AEMO) welcomes the opportunity to provide this submission in response to Energy Policy Western Australia's (EPWA) Consultation Paper entitled "Market Power Mitigation Strategy" published on the 1<sup>st</sup> of August 2022.

The Paper asks the industry to provide feedback on nine questions. Under the understanding that AEMO is only to provide data to support these processes (and thus will not introduce new costs to these processes), AEMO has no concerns with regards to the framework and guiding principles for Market Power Tests that the Economic Regulation Authority (ERA) will administer.

AEMO supports the reduction of complexity and cost brought about by reducing the two current energy price caps to a single cost-based energy price cap (outlined in question seven). AEMO also has no concern with EPWA's proposed view to set the Frequency Control Essential System Services (FCESS) price floor to \$0/MW (outlined in question nine).

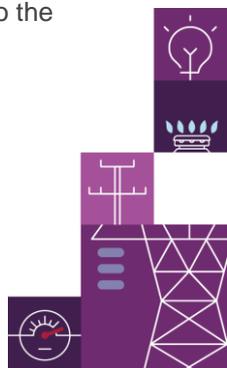
Regarding EPWA's proposals for the FCESS markets (per question three) AEMO is concerned that there may be issues of market power that are not covered by the proposal. Depending on the approach used for an Enablement Uplift, a Participant may use market power in the FCESS markets to generate abnormal returns, and potentially excessive uplift payments. The consequence of this is that it may disrupt bidding and dispatch. While the ERA will conduct an ex-post assessment of these outcomes, further consideration from the ERA is required for AEMO to understand the implementation issues that may arise with providing additional data/analysis from AEMO to enable the ERA in monitoring market power within the FCESS markets.

AEMO has concerns with the chosen option in question 8, which is a lower FCESS price cap accompanied by an uplift payment. The introduction of uplift payments for FCESS may vary the overall incentives for Participants to structure their Facilities' offers for energy and FCESS in the WEM. As any ex-post adjustment is not considered by the WEMDE Objective Function, the identification of ex-post enablement losses would indicate that the actual dispatch was inefficient to WEMDE. As a result, there may be broader impacts to the overall efficiency of the WEM.

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AEMO also seeks further clarification on the design to implement an FCESS uplift payment as an 'automated uplift payment' would require the development of new WEM rules to enable settlement. An 'on application compensation payment' presents other challenges to administer an appropriate mechanism. This change has the potential to add substantial complexity to the WEM Reform program, as well as additional cost and risk to the existing schedule.

Without developed rules, the scope of the implementation challenges for the Market Power Mitigation Strategy are hard to quantify. AEMO looks forward to continuing to collaborate with EPWA in the development of policy and rule amendments related to managing market power in the WEM. If you would like to discuss any of the matters raised in this submission, please contact Mike Hales at [mike.hales@aemo.com.au](mailto:mike.hales@aemo.com.au)

Yours sincerely,

DocuSigned by:

A handwritten signature in black ink that reads "Martin Maticka".

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Martin Maticka

**Group Manager – WA Development**