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Dear Dr Challen

SUBMISSION TO THE ELECTRICITY MARKET REVIEW CONSULTATION PAPER ON AMENDMENTS TO THE ELECTRICITY NETWORKS ACCESS CODE

The Australian Energy Market Operator (AEMO) welcomes the opportunity to submit this response to the Consultation Paper on amendments to the Electricity Networks Access Code (ENAC).

AEMO remains committed to supporting the reforms to the electricity sector being developed by the Electricity Market Review, due to the realisable benefits for consumers.

AEMO recognises the necessity of developing an alternative reform path now that the Network Regulation Reform Bills have not been enacted in the current term of government, and supports the proposed amendments to the ENAC in principle. This is because they appear the most prudent approach to maintaining effective economic regulation of Western Power in the immediate term, while retaining flexibility for future change.

However, the proposed ENAC amendments represent only the first step in the alternative reform path. Greater clarity is needed from the Electricity Market Review on the alternative path for implementing the broader set of reforms that were contained in, or influenced by, the Network Regulation Reform Bills.

The Network Regulation Reform Bills would have implemented a constrained network access regime, providing (among other benefits) a framework that would streamline the network connection process and remove barriers to entry. Through changes to Western Power's service obligations and liabilities, the Bills would also have supported the implementation of least-cost security-constrained dispatch of generation in the Wholesale Electricity Market.

With the current network connection and access framework having to continue for the AA4 period, there is a pressing need for policy intervention in respect of the generator connections framework. Western Power is advising that it will face substantial challenges in offering network connections to new generators seeking access to its network due to current and emerging network constraints. Western Power has indicated that automated dispatch tools will be required to manage network congestion and maintain system security as new generators connect to the network.

AEMO agrees that automated dispatch tools are essential for the future management of network congestion and maintenance of system security, and are pivotal to achieving efficiency improvements in the wholesale energy and ancillary service markets¹. AEMO also considers that any interim changes to dispatch arrangements must be considered holistically from a market design perspective, including assessment of impacts on market efficiency and transparency. While dispatch tools could possibly be developed to allow for new, constrained generator connections while preserving access rights of existing generators, consideration must be given to flow-on impacts on generator bidding processes and financial settlement. Short-term changes that become redundant after a short time should also be avoided where possible.

If you would like to discuss any matters raised in this submission, please do not hesitate to contact me .

Yours sincerely

Cameron Parrotte
Executive General Manager, Western Australia

¹ Specifically the reforms detailed in the *Final Report: Design Recommendations for Wholesale Energy and Ancillary Service Market Reforms*, published in July 2016.