

4 May 2018

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Dear Sir/Madam

**Response to Consultation Paper: Improving Reserve Capacity pricing signals – alternative capacity pricing options**

Thank you for the opportunity to provide feedback in relation to options to improve reserve capacity pricing arrangements in the Wholesale Electricity Market (WEM) in Western Australia.

EDL is supportive of the intent to implement more responsive pricing of capacity in the WEM to address the historic lack of response to oversupply, the cost of which is eventually borne by electricity consumers.

EDL is also supportive of the investigation into alternative approaches to the capacity auction ("Option 3"). It is felt that while an auction would encourage competition, it has the potential to decrease the current stability of the capacity market and increase risk and uncertainty for generators, particularly for smaller generators.

EDL submits that the administered pricing regime ("Option 1") is the most suitable option of those presented in the Consultation Paper. The WEM is characterised by its small size (in terms of MW) and small number of participants, of which one integrated generation/retail business generator ("gentailer") accounts for more than half of the capacity of the market. For a market with these key features, EDL maintains Option 1 is the most appropriate.

Utilising a steeper price curve in setting the administered price to provide stronger signals for over and undersupply of capacity will result in a better outcome for both generators and consumers, provided the price signal is appropriate.

To this point, EDL understands and supports the PUO's intent that any changes to the pricing formula should encourage the development of capacity in areas where it is needed most, rather than in areas where sufficient capacity already exists.

EDL submits that the PUO should give further consideration to whether a retailer-led contracting approach with a bulletin board trading mechanism ("Option 2") will concentrate the existing market power of the above noted gentailer.

It is felt that decentralising the capacity price could skew the playing field and smaller generators will not be able to compete equally with the large producers of electricity in the WEM. However, EDL notes that diversity and competition from stand-alone generation is an important factor in the electricity market.

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EDL submits that an onerous penalty regime may unduly influence the capacity price outcome during time periods where capacity is in balance or undersupply.

In relation to both Option 2 and Option 3, EDL submits the impact to energy prices should be considered. Capacity prices that are volatile from year to year may not drive an economic result in the energy market.

Please contact me on: 0417 914 103 if you would like further information on any of the above.

Yours sincerely



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