
Wholesale Electricity Market Rule Change Proposal Submission Form

RC_2011_02 - Reassessment of Allowable Revenue during a Review Period

Submitted by

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Submission

1. Please provide your views on the proposal, including any objections or suggested revisions.

System Management reiterates its support for RC_2011_02 - Reassessment of Allowable Revenue during a Review Period as outlined in its first submission to the Rule Change Proposal.

Having reviewed the amendments outlined in section 7 of the Draft Rule Change Report for RC_2011_02 released on 16 December 2011, System Management provides the following comments.

Clause 2.22.13 - Determination of a Declared Market Project

System Management notes the changes made to clause 2.22.13, including the reduced 10% threshold to trigger a Declared Market Project. The sole authority to declare a project as a Declared Market Project remains with the IMO, despite the potentially significant involvement that System Management would have in such a project. The IMO's authority is discretionary - even if the criteria and 10% threshold referred to in clause 2.22.13 are satisfied the IMO may, but does not have to declare a project a Declared Market Project.

To improve the integrity of the process associated with the application of the discretion under clause 2.22.13, consideration should be given to providing clarification in the Market Rules of

the circumstances under which the IMO should or should not exercise this discretion (this could be done by exception - e.g. where all the criteria mentioned in 2.22.13 are met, the circumstances under which the IMO would make a determination that a project is not a Declared Market Project would be.....). Consideration should also be given to including an express provision in the Market Rules providing System Management with the ability to recommend to the IMO that a project be a Declared Market Project.

For the purposes of determining a Declared Market Project proposed clause 2.22.13(b) applies the 10% threshold to the combined total of approved Allowable Revenue and approved Capital Expenditure. This is inconsistent with clauses 2.23.8 and 2.23.8A, which individually apply the 10% threshold to Allowable Revenue or Capital Expenditure respectively. It is recommended that all three clauses be reviewed to ensure that the application of the 10% threshold is consistent throughout the proposed amendments.

Application of Forecast Capital Expenditure and Capital Expenditure Terms

There are places throughout the proposed amendments where there is uncertainty between the use of the terms 'Forecast Capital Expenditure' and 'Capital Expenditure'. For example:

- Should the single reference to 'Capital Expenditure' in proposed clause 2.23.9 be replaced with 'Forecast Capital Expenditure' as this clause is referring to the amount of forecast expenditure that has been approved by the Economic Regulation Authority (ERA) under clause 2.23.3?
- Proposed clause 2.23.12 refers to '*...Forecast Capital Expenditure in accordance with 2.23.13 and 2.23.14...*'. Proposed clause 2.23.13 does not use the term 'Forecast Capital Expenditure' but refers to 'Capital Expenditure'. Clause 2.23.14 refers solely to 'Forecast Capital Expenditure.'

It is suggested that the application of the terms 'Forecast Capital Expenditure' and 'Capital Expenditure' be reviewed throughout the proposed amendments.

ERA approvals where 10% threshold exceeded or System Management seeks an adjustment

Proposed clauses 2.23.8 and 2.23.8A require System Management to apply to the ERA for approval where its budget proposal is likely to result in the determined Allowable Revenue and/or Capital Expenditure respectively being 10% or more than that originally approved by the ERA.

Clause 2.23.8B places timeframe requirements on System Management in respect to seeking approval under clause 2.23.8 or 2.23.8A (i.e. these applications should be made within sufficient time to allow System Management to provide its budget proposal to the ERA by 30 April each year).

Proposed clause 2.23.14 allows System Management to seek the ERA's approval to an adjustment to its determined Allowable Revenue and/or Forecast Capital Expenditure during a review period.

System Management notes that the three new clauses above are not accompanied by any express requirement for the ERA to make a decision in respect to applications made under

those clauses and nor are there any timeframe requirements placed on the ERA. This is problematic because:

- The absence of a decision or a delay by the ERA to make a decision in response to an application under 2.23.8 and/or 2.23.8A may result in a potential breach of proposed clause 2.23.8B by System Management;
- System Management requires certainty for large projects involving material amounts. These projects may be delayed where uncertainty exists around funding while awaiting approval from the ERA. This will result in a range of adverse impacts for System Management and possibly other market stakeholders.

Consideration should be given to including express decision and timeframe requirements on the ERA in the proposed amendments in respect to applications made under 2.23.8, 2.23.8A and 2.23.14. (Corresponding amendments could also be made for the equivalent IMO related clauses).

2. Please provide an assessment whether the change will better facilitate the achievement of the Market Objectives.

Taking into consideration its comments above, System Management is of the view that the proposed changes will better facilitate the achievement of the Market Objectives.

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

The proposed amendments should not require any significant IT or business system changes.

4. Please indicate the time required for your organisation to implement the change, should it be accepted as proposed.

The proposed changes would not require any significant implementation time.
