
Wholesale Electricity Market Rule Change Proposal Submission Form

RC_2010_01 Annual Review of the Margin Values

Submitted by

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Date submitted:	27 May 2010

Submission

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

Background

Market Rule 3.13.3 specifies initial values for the Margin_Peak and Margin_Off-Peak parameters that are used to calculate Ancillary Service availability costs and Spinning Reserve Cost Share.

Market Rule 3.13.3A requires that the Economic Regulation Authority (Authority) undertake an assessment each Review Period (i.e. every three years) to determine the values for these two parameters, taking into account the Wholesale Market Objectives and the methodology set out in the Market Rules.

Rule Change Proposal

RC_2010_01 would amend the Market Rules so that the Authority would be required to undertake an assessment to determine the values for these two parameters each year.

Alinta's views

Alinta does not support RC_2010_01.

Alinta supports as a matter of principle the notion that prices for services provided to the market should be cost reflective. However, where pricing mechanisms are allowed to operate to set prices at cost reflective levels, the market for such services must be contestable to ensure that the price reflects the economically efficient cost of these services.

RC_2010_01 would result in the values of the Margin_Peak and Margin_Off-Peak parameters being reviewed annually instead of three-yearly, but would not address any of the barriers to the broader provision of ancillary services that were identified by System Management's expressions of interest (EOI) process for the provision of load following ancillary services. These impediments were as follows.

1. Lack of certainty surrounding the pricing mechanism given linkage to MCAP, which is unknown at the time non-Verve generators would be offering to provide the ancillary service.
2. Requirement for non-Verve generators to offer to provide ancillary services at a discount to this unknown price.
3. Upfront costs that would be incurred by some non-Verve generators for installing generation control devices (and uncertainty about the ability to recover these costs).
4. Physical and contractual ability of plant to at all times provide the minimum 'blocks' of ancillary service specified in EOI.

Contrary to the IMO's claims in draft Rule Change Report, there is no evidence to support a conclusion that RC_2010_01 will better achieve Market Objective (a) or (b). In fact, as outlined below, the available evidence suggests that RC_2010_01 is not consistent with Market Objectives (a), (b) or (d).

Market objective (a)

As noted above, the effect of RC_2010_01 is to change only the frequency with which the values of the Margin_Peak and Margin_Off-Peak parameters are determined by the Authority.

The rule change proposal does not change the manner in which ancillary services are priced, nor how ancillary services might be procured from providers other than Verve. As a result, it is reasonable to conclude that the Market Rules will continue to inhibit the broader provision of ancillary services for the reasons identified above.

If Verve remains as the exclusive provider of ancillary services, then changing the frequency with which the price paid to Verve for the provision of these services is adjusted will not of itself affect the economic efficiency with which these services are provided, nor will it affect the manner in which electricity and electricity related services are provided in the SWIS.

That is, RC_2010_01 would simply result in more frequent adjustments to the quantum of the financial transfers between Verve and non-Verve market participants, and would not affect the economic efficiency, safety or reliability of the production or supply of electricity and electricity related services in the SWIS.

Market Objective (b)

The IMO suggests that RC_2010_01 will ensure providers of ancillary services will be appropriately compensated for energy sales forgone and losses in generator efficiency resulting from backing off generation to provide Spinning Reserve. However, this conclusion would only hold if a generator was providing ancillary services consistently throughout the year, and if the actual MCAP was consistent with the forecast underpinning the Authority's determination of the values of the Margin_Peak and Margin_Off-Peak parameters.

In any event, given the rule change proposal does not change the manner in which ancillary services are priced, it is reasonable to conclude that the Market Rules will continue to inhibit the broader provision of ancillary services for the reasons identified earlier.

That is, there is no evidence to support a conclusion that the changes to the Market Rules contemplated by RC_2010_01 would encourage competition among generators and retailers in the SWIS, or that it would facilitate the efficient entry of new competitors.

Market Objective (d)

Finally, it also appears reasonable to conclude that the impact of more frequently adjusting the values of the Margin_Peak and Margin_Off-Peak parameters is to create greater uncertainty for market participants, especially given the recent revision of the values of the Margin_Peak and Margin_Off-Peak parameters.

To the extent that generators and retailers are exposed to changed costs due to adjustments in the values of the Margin_Peak and Margin_Off-Peak parameters, it is also reasonable to conclude that this increase in uncertainty will result in generators and retailers increasing the risk margin factored into wholesale and/or retail prices.

That is, the available evidence suggests that RC_2010_01 will not minimise the long-term cost of electricity supplied to customers from the SWIS.

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

Market Rule 2.4.2 states that the IMO must not make Amending Rules unless it is satisfied that the Market Rules, as proposed to be amended or replaced, are consistent with the Wholesale Market Objectives. The Wholesale Market Objectives are as follows.

- (a) To promote the economically efficient, safe and reliable production and supply of electricity and electricity related services in the South West interconnected system.
- (b) To encourage competition among generators and retailers in the South West interconnected system, including by facilitating efficient entry of new competitors.
- (c) To avoid discrimination in that market against particular energy options and technologies, including sustainable energy options and technologies such as those that make use of renewable resources or that reduce overall greenhouse gas emissions.

- (d) To minimise the long-term cost of electricity supplied to customers from the South West interconnected system.
- (e) To encourage the taking of measures to manage the amount of electricity used and when it is used.

Alinta considers that the IMO cannot be satisfied that RC_2010_01 is consistent with the Wholesale Market Objectives, and in any event is likely to be inconsistent with the Wholesale Market Objectives.

In particular, for the reasons outlined earlier, the amendments to the Market Rules contemplated by RC_2010_01 are unlikely to:

- promote the economically efficient, safe and reliable production and supply of electricity and electricity related services in the South West interconnected system;
- encourage competition among generators and retailers in the South West interconnected system, including by facilitating efficient entry of new competitors; or
- minimise the long-term cost of electricity supplied to customers from the South West interconnected system.

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 changes to the Market Rules contemplated by RC_2010_01 would not require Alinta to change its IT or business systems, and hence there are no IT or business costs associated with the rule change proposal.

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

The changes to the Market Rules contemplated by RC_2010_01 would not require Alinta to change its IT or business systems, and hence there is no specific period of time that would be required to implement the changes arising from the rule change proposal.