
Wholesale Electricity Market Rule Change Proposal Form

Change Proposal No: *[to be filled in by the IMO]*
Received date: *[to be filled in by the IMO]*

Change requested by:

Name:	Ky Cao
Phone:	08 9420 0310
Fax:	08 9474 9900
Email:	k.cao@perthenergy.com.au
Organisation:	Perth Energy
Address:	77 Mill Point Road, South Perth WA 6151
Date submitted:	17 May 2010
Urgency:	3-high
Change Proposal title:	MAC Membership Review
Market Rule(s) affected:	2.3.5

Introduction

Market Rule 2.5.1 of the Wholesale Electricity Market Rules provides that any person (including the IMO) may make a Rule Change Proposal by completing a Rule Change Proposal Form that must be submitted to the Independent Market Operator.

This Change Proposal can be posted, faxed or emailed to:

Independent Market Operator

Attn: Manager Market Development and System Capacity

PO Box 7096

Cloisters Square, Perth, WA 6850

Fax: (08) 9254 4339

Email: market.development@imowa.com.au

The Independent Market Operator will assess the proposal and, within 5 Business Days of receiving this Rule Change Proposal form, will notify you whether the Rule Change Proposal will be further progressed.

In order for the proposal to be progressed, all fields below must be completed and the change proposal must explain how it will enable the Market Rules to better contribute to the achievement of the wholesale electricity market objectives. The objectives of the market are:

- (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; and
- (e) to encourage the taking of measures to manage the amount of electricity used and when it is used.

Details of the proposed Market Rule Change

1. Describe the concern with the existing Market Rules that is to be addressed by the proposed Market Rule change:

The Market Rule 2.3.5 sets the Market Advisory Committee's membership at a maximum 12 in total, with 7 places reserved for incumbent State owned entities, these being Verve Energy, Synergy Energy, System Management, Western Power and IMO (x2). There are only 6 places for other market participants, two of whom must be reserved for representatives of large users and small users groups. This leaves just 4 places for private sector generators, wholesalers and retailers combined.

Allowance of 4 places may have seemed reasonable in 2004, when the Market Rules were written in the context of a closed market, and even 2006-07, when the Wholesale Electricity Market (WEM) began. But in today's SWIS, the limitation on and distribution of MAC membership have become inadequate given the growth and complexity of the WEM in which the private sector holds almost \$2 billion in generation assets, trades around \$450m per year in the STEM, Balancing and other segments of the market settled by the IMO including Reserve Capacity Trades, Ancillary Services, etc. and retails a similar amount to contestable customers annually.

With the growth in private sector investment in the SWIS there is increasing investor concern over barrier to direct participation of private suppliers in the direction and implementation of Market Rules changes. This concern applies to investment in not just generation but also retail and wholesale trading operations in the SWIS, causing the holding off of capital injection into these operations to supply the growing contestable market and improve on the efficiency of that supply. This has direct and negative electricity price and supply quality implications for all consumers in the SWIS.

To continue encouraging private sector participation the Market Rule 2.3.5 needs to be changed to provide for fairer and wider representation. With Verve and Synergy, the State owned generator and retailer respectively, having compulsory (permanent) class membership, the MAC membership cap should exclude Verve and Synergy. While Perth Energy agrees with Verve and Synergy remaining compulsory class members due to their role as system energy balancer and retailer to the franchise market segment respectively, total membership should be expanded by at least 2 discretionary class members accordingly. This will broaden the catchment of private suppliers' representation and make it more equitable, enrich debate at MAC level and assist the IMO better achieve the objectives of the market stated above.

2. Explain the reason for the degree of urgency:

There are significant changes to Market Rules in the IMO's work programs for this year, partly as a result of participation of the Oates Committee, which is reviewing the Vesting Contract between Verve and Synergy and certain Market Rules that are seen to be defective in the functioning of the WEM's Short Term Energy Market and energy balancing mechanism. All these changes, while conceptually supported by market participants, have the potential to impact significantly on the finances of all participants.

There is an urgent schedule being pursued by the Oates Committee and the IMO in implementing changes. It is imperative that MAC membership be amended to allow for additional, direct market participants' input to the process to enable the urgent schedule to be achieved without threatening investor confidence in the WEM processes.

3. Provide any proposed specific changes to particular Rules: (for clarity, please use the current wording of the Rules and place a ~~strikethrough~~ where words are deleted and underline words added)

2.3.5. Subject to clause 2.3.13., the Market Advisory Committee must comprise:

- (a) ~~three~~four members representing generators, of whom one must represent the Electricity Generation Corporation;
 - (b) one member representing Contestable Customers;
 - (c) at least one and not more than two members representing Network Operators, of whom one must represent the Electricity Networks Corporation;
 - (d) ~~three~~four members representing retailers, of whom one must represent the Electricity Retail Corporation;
 - (e) one member nominated by the Minister to represent small consumers;
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4. Describe how the proposed Market Rule change would allow the Market Rules to better address the Wholesale Market Objectives:

The changes to the Market Rule 2.3.5 as proposed will address objectives (a), (b), (c) and (d) above, by improving on the quality of debate at MAC, encourage competition through increased participation, and minimise the long term cost of electricity through retention of investor confidence required to facilitate investment in generation, retail and wholesale trading in the WEM.

Should this Market Rule change proposal be adopted it is recommended that the IMO appoint immediately the additional MAC members to ensure the urgency of the Market Rules change schedule be maintained.

5. Provide any identifiable costs and benefits of the change:

Costs – none

Benefits – more effective contribution to Market Rules change process and smoother implementation through greater acceptance by market participants of the changes.
