

Wholesale Electricity Market Rule Change Proposal Submission

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Reduction of the prudential exposure in the Reserve Capacity Mechanism

Submitted by

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Submissions on Rule Change Proposals can be sent by:

Email to: rcp.secretariat@rcpwa.com.au

Post to: Rule Change Panel
Attn: Executive Officer
C/o Economic Regulation Authority
PO Box 8469
PERTH BC WA 6849

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

Community Electricity continues to support the original Rule Change Proposal.

We perceive the new cost benefit assessment to compare an avoided cost of capital with the cost of achieving that avoidance. As such, we perceive the analysis to be unrealistically narrow in scope. We also consider it to be based on unrealistic assumptions.

We consider the payback period to be much shorter than the value posited.

We suggest that the assessment should instead holistically consider the impacts - intangible and tangible - on the Market Objectives including the following aspects:

1. The impact on retail prices

As matters stand, there is strong competition in the retail space due to the presence of small retailers that take capacity and energy at the "spot" prices.

Many of these retailers lodge cash as prudential support and at the margin that cash is funded at equity rates of return (~20+%). This cost is factored into retail price offers and increases in the quantity of cash required would elevate retail prices.

We suggest that the relatively high cost is a principal reason that small retailer penetration has plateaued and isn't higher.

While small retailers collectively supply less than, say, 2% (~50MW) of system load, their competitive price offers ripple into the market more broadly to include a much larger quantity of customers they "nearly won". In effect, their competitive presence reduces the prices of loads that they don't supply. The extent of this is subjective, but a success rate of 10% (by number) is normal.

In addition to the direct cost of capital, the logistical friction should also be considered - such as lender covenants and loss of business control. These considerations limit the quantity of capital available and the quantity of load that can be supplied.

Asymmetric liabilities - first churn

We suggest that the calculation should also take into account the benefit of removing the traditional asymmetry that disadvantages Synergy (as the original incumbent retailer) when a customer churns for the first time. That is, for a first-time churn, Synergy is subject to the 3 month overhang while not having enjoyed the corresponding 3 month holiday. While Synergy has already born this impost for existing privately supplied customers, it would be avoided for future first-time churns. This would be especially relevant for FRC, amounting to, say, $\$139,000/12$ (prospective capacity price per month) $\times 1.3$ (TDL ratio new meters) $\times 3$ months (N-3) $\times 25\%$ (FRC market) $\times 4,000\text{MW}$ (total market) $\times 30\%$ (market share loss)

We estimate this as more than \$10 million. In the event of the original scenario being declined, we'd challenge the logic underpinning Synergy (or the TAP) being required to bear this charge.

Asymmetric liabilities - changing capacity prices

Where the N-3 capacity holiday and subsequent overhang take place in different Capacity Years, a value mismatch is created. In the current and prospective Capacity Years, we estimate this at around \$10,000 per MW. This is an unnecessary business risk.

The administrative complexity of the N-3 lag

The N-3 lag is unnecessarily inelegant; the market should host complexity only where it adds value.