

9 February 2023

Mr Jai Thomas
Deputy Director General – Coordinator of Energy
Energy Policy WA
Level 1, 66 St Georges Terrace
Perth WA 6000

Via email: energymarkets@dmirs.wa.gov.au

Expert Consumer Panel submission on Cost Allocation Review

Dear Mr Thomas,

Thank you for the opportunity to make a submission in response to Energy Policy WA's Cost Allocation Review consultation paper.

The energy sector in Western Australia exists to provide electricity and gas to consumers. It is central to energy production and delivery that the long-term interests of energy consumers are served. The Expert Consumer Panel (ECP) was established by the Western Australian Government to provide input on policy, rules and other processes across all elements of the energy supply chain. The ECP has a broad membership base with representatives from the social welfare sector, climate movement, former senior energy sector executives and experts, all of whom bring a unique customer perspective to the work of the group.

The ECP is represented on the Market Advisory Committee (MAC) and one of its members is a member of the Cost Allocation Review Working Group and is contributing to the detailed technical discussions in those forums.

The ECP is generally supportive of the proposed directions outlined in the consultation paper and in this submission provides high level comments on key consumer issues.

Many Western Australians are facing cost of living challenges as the prices of groceries, rent and life's other essentials increase at rates that we have not seen for more than 30 years. Inefficient market fees and other costs will impact consumers directly if passed through on bills, or indirectly because subsidies provided by the WA Government to cover any differences in costs and prices are a cost ultimately borne by the Western Australian public, whether through taxes or a lack of public investment in other areas.

The ECP also notes that while currently the regulated tariff for small use customers is not fully cost reflective, a move to make tariffs more cost reflective is on the agenda. We cannot, therefore, assume that inefficient costs will not at some stage be passed on to consumers by this or future governments, and so an appropriate allocation of those costs is essential for the long term.

The market fees and other costs that are the subject of this consultation are largely outside the control of consumers. Ensuring the costs are accurately calculated and then attributed to the market participant - be that the generator, retailer or other party - who is in the best position to manage those costs is a foundational principle for the ECP. The ECP is unlikely to support changes to methodologies unless it is clear that they will incentivise behaviour which will drive down costs and support system security and/or decarbonisation objectives.

We are satisfied that the guiding principles adopted by Energy Policy WA for this review reflect this approach and have been applied in a rigorous and open way through the working group process. We support proposals 1 through to 6, noting our specific comments on three of the items below.

Specific comments

- Market fees
 - We support Proposal 1, as we do not believe there is a persuasive case to adopt a new methodology for calculating and allocating market fees, given they account for 0.5% of the total cost of energy and the analysis shows only marginal net benefits for alternative approaches.
- Contingency Reserve Raise (spinning reserve)
 - We generally support Proposal 3, but suggest that the Facility Risk Value (based on the contingency quantity (MW) to be used for allocating the costs) should use the largest single credible contingency that could occur for a facility, even for facilities with multiple units and more than one network connection. For example, if a wind farm has multiple units connected to the network via two separate connection points, and the largest credible contingency is loss of the combined output of the wind turbines connected to one of the two connection points (because that connection could trip) then this would be used to set the Facility Risk Value providing that the other connection point will not trip at the same time. If it is credible for both connections to trip at the same time for some reason, then the largest credible contingency would be the whole wind farm's output.
 - To ensure that the appropriate largest credible contingency is used to determine the Facility Risk Value, it may be necessary in some cases for AEMO, in consultation with Western Power and the facility owner, to determine what is the largest credible contingency for the facility for this purpose.

- Non-Co-Optimised Essential System Services (NCESS)
 - We generally support Proposal 6, noting the statement on page 13 of the consultation paper that the cost of NCESS should be borne by loads (i.e. market customers). The ECP is interested to understand whether there is an opportunity to improve the NCESS and related processes by directing the payment of penalties/refunds (either in full or in-part) - for non-performance that results in additional capacity being required through NCESS (e.g. long duration forced outages, fuel supply problems like we have this summer and which may be ongoing) - to partly fund the NCESS rather than penalties/refunds continuing to be paid to other generators and exist as a separate process, which requires all of the additional costs of NCESS to be borne by loads (consumers in the end).

As a panel we are keen to see these matters, which have been the subject of extensive analysis and discussion, settled. As a sector we need to efficiently work through these types of issues so time and resources are not distracted from the highest priority market reforms - particularly those which go directly to plans to retire the State's legacy fossil fuel generation and ensure the plans and incentives guarantee they are replaced with clean, flexible energy resources in an orderly way.

We would be pleased to provide any further information to support this submission and look forward to continuing to engage in the Cost Allocation Review through the working group and other forums.

Yours sincerely,

WA Expert Consumer Panel