

27 November 2023

Ms Dora Guzeleva
Director
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Via email: energymarkets@dmirs.wa.gov.au

Submission by Expert Consumer Panel members Chris Alexander and Noel Schubert on the amending rules to implement Cost Allocation Review outcomes

Dear Ms Guzeleva,

Thank you for the opportunity to make a submission on the draft Wholesale Electricity Market (WEM) amending rules to implement the outcomes of the Cost Allocation Review.

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. ECP members include 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.

As members of the ECP, we represent energy consumers on the Market Advisory Committee (MAC) and have participated in the Cost Allocation Review through the supporting working group. Our contributions in these forums, as well as our 23 February 2023 submission to the consultation paper, focussed on two things: first, ensuring that costs and risks in the electricity system are allocated to those best placed to manage them; and second, that any changes to the current arrangements deliver net benefits for Western Australian energy consumers.

The Cost Allocation Review reached sensible conclusions aligned with these important considerations.

Firstly, we supported the decision to retain the existing arrangements in relation to market fees and other costs (e.g. AEMO's market operation services costs) because they are outside the control of small energy consumers. The overwhelming majority of households and small businesses rely on Synergy to manage their electricity supply on their behalf and are not equipped with the information or tools to actively manage their electricity use in real time. In this context, exposing small consumers to a greater share of market fees would not deliver efficiency gains or net benefits, particularly when the administrative cost of reallocating fees that only account for 0.5 per cent of total electricity costs are taken into account.

Secondly, the Review recommended changes to provide market participants with greater flexibility to manage their risks and costs, that should deliver overall system benefits. For example, the new cost recovery arrangements for Contingency Reserve Raise actions, which helps keep the system in balance when electricity generators unexpectedly trip, will better reflect steps market participants take to configure their assets and network connections in ways that minimise risks. Similarly, the proposed changes to the arrangements for Contingency Reserve Lower, and Regulation Services will better align actual performance with cost recovery.

We support the implementation of the WEM deviation method, as proposed for the allocation of costs of providing Regulation Services for Maintaining System Frequency, as a pragmatic approach for now. The WEM approach to Regulation Services cost allocation could be reviewed at an appropriate time if the more sophisticated NEM approach proves to be sufficiently better.

We do not comment on any detail of the proposed rule changes in the amending rules exposure draft, on the assumption that the drafted changes reflect the agreed outcomes of the Cost Allocation Review process as described in the Consultation Paper and final Information Paper.

It is important that the amendments to implement these reforms are now progressed in a timely way to enhance risk management in WEM and improve outcomes for Western Australian energy consumers.

We would be pleased to provide any further information to support this submission.

Yours sincerely,

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