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DISCUSSION PAPER: 2012 WHOLESALE ELECTRICITY MARKET REPORT TO THE MINISTER FOR ENERGY - WESTERN POWER SUBMISSION

Western Power welcomes the opportunity to contribute to the Economic Regulation Authority's (Authority) 2012 Wholesale Electricity Market (WEM) Report to the Minister for Energy.

This submission is confined to relevant issues from a network management perspective. Responses relating to system management functions will be lodged separately with the Authority by the System Management Division.

Western Power notes that consideration of constrained network access, while indicated as a strategy in the final Strategic Energy Initiative policy, appears to have a diminished priority. Western Power considers that migrating to constrained network access is one of the key mechanisms with the potential to reduce the overall cost of electricity, acknowledging that this would most likely require changes to the current market design to be effective.

Western Power supports, in particular, the Wholesale Electricity Market objective to minimise the long-term cost of electricity supplied to customers. Where relevant, we have indicated the impact on the network, or network costs, which also impact on the cost to consumers. With these things in mind, this submission has been prepared in response to the specific issues raised by the Authority in the Paper.

1.1 Discussion Point 2

Stakeholders are invited to comment on whether there should be a limit set for the amount of Capacity Credits that the IMO can procure in excess of the Reserve Capacity Requirement and if so, on what basis this limit should be determined.

As described in the paper, capacity currently procured is in excess of the Reserve Capacity Requirement. Western Power concurs that this excess capacity represents inefficient over-investment in generation capacity, is not in accordance with the Market Objectives, and is likely to have increased the cost to consumers unnecessarily.

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Western Power therefore supports the principle of limiting payment for excess capacity. However, the need to ensure system security by maintaining available capacity at least equal to the Reserve Capacity Requirement remains paramount.

The impact of connection of excess generating capacity in relation to network augmentations may also increase the cost to consumers unnecessarily and this must be taken into account in addressing reserve capacity requirements.

Again, constrained network access would be one option that could reduce network investment to a level closer to that required to efficiently meet overall system peak demand.

1.2 Discussion Point 8

Stakeholders are invited to comment on whether the current market design provides appropriate incentives for retirement of inefficient generating units.

Inefficient generation is likely to result in higher costs to electricity customers. Therefore, it is appropriate for the market to provide incentives to retire inefficient generation, in support of the Market Objectives. As the paper suggests that capacity payments may have delayed retirement of older less-efficient generators, it would appear that the current incentives provided in the market are not particularly effective at this stage.

From a network perspective, a major challenge is to connect new generation (following other retirements) with minimal network investment. If more efficient generation can be connected at the location where an inefficient generator was retired, system generation efficiency increases at the lowest level of network augmentation, leading to least cost outcomes for consumers.

Alternatively, as indicated in our submission to the State Energy Initiative and previous WEM reports, moving from an unconstrained to a constrained access regime would allow a more efficient generator to locate adjacent to an older inefficient generator without further network augmentation. While this may require changes to the capacity mechanism, in this scenario the offer price of the more efficient generator would presumably be lower and would displace the generation from the inefficient generator. This would also result in increased system efficiency at the lowest level of network augmentation, but without the need to actually remove the inefficient generator, which may also usefully contribute to system security in times of emergency.

1.3 Discussion Point 9

Stakeholders are invited to comment on issues that are impacting on the efficient operation of the new LFAS market.

The paper suggests that the new Load Following and Ancillary Service (LFAS) Market, which commenced in July 2012 and has resulted in a large increase in cost to the market compared to the previous regime, may not be efficient. Western Power has been involved in extensive discussions regarding this at the Market Advisory Committee (MAC). While the total cost of LFAS may have increased, determining whether this is in fact an inappropriate outcome requires further detailed assessment, which Western Power understands the Authority is undertaking.

On a more strategic matter, the paper indicates the Authority's concerns with the type of capacity being attracted to the market. In particular, how the types of capacity may affect the efficiency of the market in delivering the least cost of electricity supply to consumers. That is, a non-optimal generation mix may result in unnecessary costs for consumers. Western Power shares this concern and would support further investigation as to whether the current Market mechanisms are delivering an optimal generation mix.

Western Power is pleased to be able to contribute to the 2012 WEM review process. We would welcome the opportunity to further discuss these matters, or any other issues the Authority may wish to raise.

Yours sincerely

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