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Economic Regulation Authority
PO Box 8469
Perth Business Centre
PERTH WA 6849

Attention: Jeremy Cook
Principal Analyst Markets

Email: publicsubmissions@erawa.com.au

Dear Jeremy

**CONSULTATION PAPER – REVIEW OF THE METHODOLOGY FOR SETTING
THE MAXIMUM RESERVE CAPACITY PRICE AND THE ENERGY PRICE LIMITS
IN THE WHOLESALE ELECTRICITY MARKET**

Thank you for the opportunity to comment on the Economic Regulation Authority's review of the methodology for setting with Maximum Reserve Capacity Price (MRCP) and the Energy Price Limits (EPL) in the Wholesale Electricity Market (WEM).

Full details of Verve Energy's comments are presented in the attached submission.

Thank you again for the opportunity to comment, should you require additional information on any of the above issues, I can be contacted by email at: Jacinda.Papps@verveenergy.com.au or phone: (08) 9424 1917.

Yours sincerely

JACINDA PAPPS
SENIOR REGULATORY ANALYST

ERA ISSUE	VERVE ENERGY COMMENT
3.2 The Role of the EPLs in curbing market power	
<p>The Authority invites comments from stakeholders in relation to the appropriateness of having a Minimum STEM Price. The Authority also seeks stakeholder comments in relation to setting the Minimum STEM Price at Negative \$1000 as a hard-coded number in the Market Rules with no process provided for the review of this value.</p>	<p>Verve Energy notes that changing the Minimum STEM Price from the inverse of the Maximum STEM Price to hard-coding a value of negative \$1000 into the Market Rules occurred as part of the implementation of the new Balancing and Load Following Ancillary Services Markets from 1 July 2013.</p> <p>Verve Energy is concerned that there seems to have been limited analysis in selecting this value during the Market Evolution Program.</p> <p>Verve Energy has not undertaken any analysis as to whether this value is appropriate, or whether an alternative value would be more appropriate, however Verve Energy considers that there would be value in such a review being undertaken.</p> <p>While the current Market Rules do not explicitly provide for a process for reviewing this value, Verve Energy considers that the scope for the Authority's Annual Wholesale Electricity Market Report to the Minister for Energy is sufficiently broad enough for the Authority to analyse whether this value is appropriate (see clause 2.16.12 of the Market Rules which requires the Authority to provide a report to the Minister for Energy containing its "assessment of the effectiveness of the market"). Verve Energy considers that a review of the effectiveness and appropriateness of the Minimum STEM Price could reasonably be captured under this clause.</p> <p>However, in noting that, Verve Energy sees value in having a more explicit review process to assess the appropriateness of the value of the Minimum STEM Price in the Market Rules. As such, Verve Energy would welcome a Rule Change Proposal to this effect. However, in noting this, Verve Energy considers that this has a low priority compared to a number of other issues to be addressed at present.</p>

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3.3.1 Requirements under clause 6.20	
<p>The Authority invites comments from Stakeholders in relation to the appropriateness of clause 6.20 of the Market Rules. The Authority also seeks views from stakeholders on the appropriateness of the required annual review of the EPLs, and whether the IMO should be allowed to propose revised EPLs outside of the normal review cycle, in response to significant changes.</p>	<p>Verve Energy notes that the current Energy Price Limits annual review process seems to be a reasonably high overhead and potentially costly to the market. Given the IMO has indicated that it has a significant workload which has lead to a number of market developments being delayed¹, Verve Energy suggests that streamlining potentially superfluous and time consuming processes would be beneficial to the market.</p> <p>In principle, Verve Energy is supportive of Synergy's submission during the 2011 Energy Price Limits Review, which suggested that the IMO could avoid the annual "first principles" review and use an appropriate escalator in the form of a linear equation. Synergy went on to suggest that this approach could be used for a period of three to five years before needing correction via the "first principles" approach that currently exists for the annual process.</p> <p>As such, Verve Energy considers that the Authority should undertake a cost benefit exercise to assess the current annual review process against the following suggested process:</p> <ul style="list-style-type: none"> • undertaking a thorough first principles review every three or five years; • applying appropriate escalators in the out-years; and • including the ability to undertake an "out of cycle" review should there be any significant changes or circumstances warranting such a review.
3.3.2 Requirements under clause 2.26	
<p>The Authority invites comments from stakeholders in relation to the appropriateness of regulatory oversight provided under clause 2.26 of the</p>	<p>Verve Energy considers that the regulatory oversight contemplated by clauses 2.26.1 and 2.26.2 of the Market Rules is appropriate and that any</p>

¹ For example, the implementation of the recommendations from Phase 2 of the Five Year Review of Outage Planning Processes.

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Market Rules and whether any amendments should be considered.	<p>amendment to these rules would likely lead to duplication of work between the IMO and the Authority, resulting in inefficient use of resources.</p> <p>However, in noting this Verve Energy is concerned that there is significant overlap in the five year review requirement on the Authority as outlined in clause 2.26.3(e) and the five year review requirement on the IMO as outlined in clause 4.16.9.</p> <p>Verve Energy suggests that the Authority undertake an assessment of the requirements of 2.26.3(e) and 4.16.9 with a view to removing any significant duplication from the Market Rules.</p>
3.4.1 No defined Market Procedure for the methodology	
<p>The Authority invites comments from stakeholders in relation to the requirement for developing a Market Procedure for documenting the methodology the IMO uses and the process it follows in calculating the EPLs under the Market Rules.</p>	<p>Verve Energy considers that there could be some value in the IMO developing a Market Procedure for documenting the methodology it uses and the process it follows in calculating the EPLs under the Market Rules. However, in noting this, Verve Energy considers that this has a low priority compared to a number of other issues to be addressed at present.</p> <p>Verve Energy considers that if the Authority agrees with Verve Energy's suggestion to streamline the annual review process to:</p> <ul style="list-style-type: none"> • undertake a thorough first principles review every three or five years; • apply appropriate escalators in the out-years; and • including the ability to undertake an "out of cycle" review should there be any significant changes or circumstances warranting such a review, <p>then thorough market Rules or a detailed Market Procedure would be required, specifically in relation to the factors that would warrant an "out of cycle" review of the EPL.</p>
3.4.3 Lack of powers of the IMO to request for actual operational data	
The Authority invites stakeholders to provide their views on whether the	Verve Energy considers that the current process is sufficient and that the

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<p>Market Rules should be amended to extend powers to the IMO and the Authority to request for operational data from Market Participants on a confidential basis to provide more accurate inputs to the modelling process involved in calculating the EPLs.</p>	<p>Market Rules should <u>not</u> be amended to extend powers to the IMO and the Authority to request operational data from Market Participants. The reason for this is that a large proportion of the data that the IMO or Authority would be requesting is commercial in confidence and Verve Energy would not be able to provide without being in breach of various contracts. Furthermore, Verve Energy is generally concerned with the risk that this information could be used for other purposes.</p>
<p>3.4.6 Adjustment rules for the calculation of the Alternative Maximum STEM Price</p>	
<p>The Authority invites comments from stakeholders on whether the Market Rules should be amended to reduce the frequency of the Energy Price Limits review, and to apply other parameters such as carbon prices, CPI indexing and exchange rate changes to the calculation of the Alternative Maximum STEM Price in between the reviews.</p>	<p>As noted above², Verve Energy considers that there would be value in amending the Market Rules to reduce the frequency of the EPL review, applying appropriate escalators and retaining the ability to undertake an “out of cycle” review should there be any significant changes warranting such a review.</p> <p>As such, Verve Energy considers that the Authority should undertake a cost benefit exercise to assess the current annual process against alternative, more streamlined processes to ascertain the most appropriate and cost effective solution for the market.</p> <p>Further, Verve Energy requests clarification of how the EPL processes would accommodate the Emissions Trading Scheme component of the Carbon Pricing Mechanism potentially commencing in 2014.</p>
<p>4.3.1.5 Five – yearly review of the MRCP Market Procedure</p>	
<p>The Authority seeks views from stakeholders on the appropriateness of the required five-yearly review of the MRCP Market Procedure by the IMO and whether the frequency of the review should be modified.</p>	<p>As noted above³, Verve Energy is concerned that there is significant overlap in the five year review requirement on the Authority as outlined in clause 2.26.3(e) and the five year review requirement on the IMO as outlined in clause 4.16.9.</p> <p>Verve Energy suggests that the Authority undertake an assessment of the</p>

² See comments in relation to section 3.3.1 Requirements under clause 6.20

³ See comments in relation to section 3.3.2 Requirements under clause 2.26

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	requirements of 2.26.3(e) and 4.16.9 with a view to removing any significant duplication from the Market Rules.
4.3.1.6 Approval of proposed MRCP value by the Authority	
The Authority invites comments from stakeholders in relation to the appropriateness of regulatory oversight provided under clause 2.26.1 of the Market Rules and whether any amendments should be considered.	Verve Energy considers that the regulatory oversight contemplated by clauses 2.26.1 of the Market Rules is appropriate and that any amendment to this rule would likely lead to duplication of work between the IMO and the Authority, resulting in inefficient use of resources.
4.4 Factors relating to the current methodology	
The Authority invites comments from stakeholders in relation to issues that should be considered as part of the methodology for setting the MRCP.	<p>As part of the submissions process on the Five-Yearly Review of the Methodology and Process for Determining the MRCP (PC_2011_06) Verve Energy noted a concern that the non-inclusion of an adjustment for Forced Outage rates in the MRCP formula could have a serious financial impact, even for plants with a relatively low Forced Outage rates. Verve Energy's full submission on this issue is available on the IMO's website⁴.</p> <p>In response to this concern the IMO noted that:</p> <p style="text-align: center;"><i>"...an allowance for Forced Outages should be reconsidered in the future, based on analysis of market data following the implementation of any changes to the Reserve Capacity refund regime, which are expected to be significant..."</i>⁵</p> <p>Verve Energy raised this issue again as part of the submission process for the MRCP for the 2015/16 Capacity Year. Specifically, Verve Energy suggested that, as there had been an in principle agreement (at that time) regarding the concept of adopting a dynamic refund mechanism, the IMO add a review of "the potential inclusion of an adjustment for Forced</p>

⁴ See: www.imowa.com.au/PC_2011_06

⁵ Pgs 33 - 34 of 74, Final Procedure Change Report (PC_2011_06).

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	<p>Outages in the MRCP calculation” into its work plan. Verve Energy requested that this review to commence six months after the implementation of a dynamic refund mechanism.</p> <p>In response to this suggestion, the IMO noted that it would discuss this issue with the Market Advisory Committee in 2013 and also suggested that Verve Energy raise this as part of the Authority’s review of the EPL and MRCP Methodology⁶. To date this has not been discussed at the MAC and in the absence of a Work Plan from the IMO, Verve Energy is uncertain as to when this will be discussed at the MAC.</p> <p>Verve Energy is still concerned that the non-inclusion of an adjustment for Forced Outage rates in the MRCP formula could have a serious financial impact, even for plants with a relatively low Forced Outage rates and would like the ERA to consider this suggestion as part of this process. If required, Verve Energy would be willing to meet with the ERA to discuss this suggestion further.</p>

⁶ Pg 55 of 65, Final Report: Maximum Reserve Capacity Price for the 2015/16 Capacity Year.