



12 January 2015

Elizabeth Walters
Assistant Director Electricity
Economic Regulation Authority
Level 4, Albert Facey House,
469 Wellington Street, Perth WA 6000
Via email: publicsubmissions@erawa.com.au

Dear Elizabeth,

Discussion Paper: 2014 Wholesale Electricity Market Report to the Minister for Energy

Alinta Energy (**Alinta**) welcomes the opportunity to comment on the Authority's Discussion Paper regarding its 2014 Wholesale Electricity Market (**WEM**) Report to the Minister for Energy.

In the year since the Authority last undertook its annual review, the WA Government has progressed two significant initiatives which have direct relevance to the WEM. These two initiatives have changed the nature of the market and therefore the matters the Authority should consider in its review of the effectiveness of the WEM. The initiatives are:

- The remerger of Verve Energy and Synergy on 1 January 2014 and establishment of the standard products regime in mid-2014; and
- The first phase of the Electricity Market Review (**EMR**), which includes a broad consideration of the WA electricity market including the structure of the market, the WEM design and the governance arrangements.

Alinta considers that both the remerger of Verve and Synergy and the EMR have highlighted the impact of the dominance of Synergy on the operation of the current market. Therefore addressing the significant issue of market dominance is the foundation for any more significant reform recommended by either the EMR or the Authority in its WEM Report. Consequently Alinta supports the views put forward by the Authority in its Discussion Paper that:

"... a fundamental redesign of the market should only be considered once the industry structure issues have been dealt with, as all market designs are problematic without a competitive industry".

Alinta also supports the Authority's approach of not duplicating the work currently being undertaken by the EMR which will seek to address a number of the issues that have been identified during previous reviews of the effectiveness of the WEM. As a consequence

Alinta has not incorporated details of its suggestions for addressing the issues associated with the current WEM design and governance arrangements within this submission¹. Alinta's views expressed within this submission relate to only those issues which the Authority has indicated it will focus on during this review and that will complement the broader work being undertaken by the WA Government on these matters to ensure the on-going efficiency of the WEM.

Alinta's views

Alinta is broadly supportive of the Authority reviewing:

- **The effectiveness of the new Balancing and Load Following arrangements.** There has now been sufficient experience since the implementation of these arrangements in mid-2012 for an independent review of their success to be undertaken by the Authority with a view to identifying potential future changes which could enhance their efficiency. To the extent any enhancements are identified these should be considered in the next stage of the EMR.
- **The impact of the merger of Synergy and Verve on market outcomes.** In light of the highly concentrated electricity market structure following the re-merger it would be appropriate for the Authority to consider whether this has had implications for the efficiency of market outcomes. If any refinements to the market design, including the market power mitigation strategies, are identified by the Authority then these should be considered in the next stage of the EMR, depending on the significance of any potential impacts in the interim and likely timing of implementing any solutions.

Alinta notes that there is likely to be overlap between this review and the Authority's 2014 review of the effectiveness of the Electricity Generation and Retail Corporation Scheme (**EGRC Scheme**), as the post-merger market structure will have potentially impacted on effectiveness of the WEM design in achieving the market objectives. To the extent that competitive neutrality has not been achieved as a result of the EGRC Scheme and/or Synergy's performance under the scheme; competitive market outcomes are unlikely to have eventuated in the WEM.

Alinta therefore considers that in order to identify the implications of the re-merger on the effectiveness of the WEM, it is appropriate for the Authority to consider, as part of the 2014 review of the effectiveness of the EGRC Scheme, both:

- The effectiveness of the scheme in achieving the policy intentions identified by the Authority²; and
- Synergy's performance under the scheme.

¹ For further details Alinta's broader concerns with the current market design refer to Alinta's submission (17 September 2014) on the Issues Paper for the EMR.

² Refer to the ERA Discussion Paper: 2014 Annual Report to the Minister on the effectiveness of the EGRC Regulatory Scheme, pages 5-6

- **The effectiveness of the market design in managing sustained network outages arising from the transformer failures at Muja.** Given the significant constraint payment costs that have been incurred by Market Customers as a consequence of the need to dispatch the Vinalco units to maintain power system security in the southern region, Alinta supports the Authority in assessing whether:
 - These costs have been appropriate³; and
 - Any amendments to the market design and associated processes are required to ensure the sustained network outages can be efficiently and effectively managed.

Alinta considers that any recommendations from the Authority with respect to this issue should be further considered during second phase of the EMR given the likely overlap with any potential changes to the WEM design and the network access model that might arise.

If you would like to discuss this submission please don't hesitate to contact me on 9486 3009.

Yours sincerely

Fiona Wiseman
Wholesale Regulation Manager

³ Alinta notes that the Authority is currently undertaking a separate assessment of whether Vinalco's behaviour was consistent with the Market Rules.