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## **Agenda Item 9: AEMC review of Energy Market Frameworks in light of Climate Change Policies**

### **1. Background**

The AEMC review of Energy Market Frameworks in light of Climate Change Policies (AEMC Review) has been undertaken to provide advice to the Ministerial Council on Energy (MCE). This advice is centred on changes that may be needed to energy market frameworks consequent to the introduction of the Carbon Pollution Reduction Scheme and the expanded Renewable Energy Target.

The MCE was concerned about the ability of existing market frameworks to handle this change efficiently, therefore directed AEMC to undertake this review.

### **2. Content of the Report applicable to Western Australia**

The AEMC Review identified a set of improvements for the Western Australian market. These relate to a lack of transparency in how, and at what cost the system is balanced in real time and the efficiency implications of the differential treatment of wind powered generation and other forms of generation in pricing and settlement.

An overview of the AEMC report's recommendations for Western Australia and details of reviews underway is presented below.

### **3. Recommendations**

The IMO recommends that the MAC:

- Consider the recommendations made by the AEMC and the work currently underway that may achieve these recommendations; and
- Identify and discuss any gaps.

AEMC Recommendation	Further Details	Currently underway
Retail price regulation should be considered	If price regulation is to be retained after the introduction of the CPRS, it should include a mechanism to adjust prices so that they reflect carbon costs.	<p>Western Australia Office of Energy – Electricity Retail Market Review</p> <p>The review will undertake a detailed study of retail tariff arrangements, assess the implementation of full retail contestability in electricity and consider the cost and benefits of implementing smart meters.</p> <p>The electricity tariffs component of this review has now been completed, while the other two components are ongoing.</p>
Renewable Energy Generation Working Group's investigation should be expedited	Consideration should be given to charging Market Participants for Ancillary Services on a "causer-pays" basis.	<p>MAC Renewable Energy Generation Working Group – Renewable Energy Generation Works Package.</p> <p>The Working Group has expedited the process with all four work packages having been scoped by Tenet Consulting. MMA has been appointed to undertake Work Package 2.</p> <p>A request for tender process is currently being undertaken for Work Packages 3 and 4.</p>
The reporting requirements applying to System Management and the Independent Market Operator (IMO) should be enhanced so as to increase the transparency of dispatch and Balancing decisions and the visibility	<p>Once these measures have been in place for a period of time, consideration should be given to the following additional measures.</p> <ul style="list-style-type: none"> <li>○ Introducing competition into balancing.</li> <li>○ Improving the quality of information regarding the likely output of wind-powered generators.</li> <li>○ Setting the price at which deviation quantities are settled so that it better reflects the cost of the Balancing services that deviations necessitate.</li> </ul>	<p>MAC – Market Rule Evolution Plan</p> <ul style="list-style-type: none"> <li>• Preliminary work is being completed by Concept Consulting on the current Balancing mechanism</li> <li>• A review of the procurement of Ancillary Services process and assessment of whether the provision of Ancillary Services should be opened up to competition is planned. Scoping will begin in December 2009 will include a review of the linkages to the Balancing review.</li> </ul>

AEMC Recommendation	Further Details	Currently underway
of the associated costs.	<ul style="list-style-type: none"> <li>○ Introducing competition into the procurement of Ancillary Services.</li> <li>○ Allowing participants to provide their own Ancillary Services cover.</li> <li>○ Allowing System Management to make a profit (or loss) on its Balancing operations, in order to provide it with an incentive to achieve efficient outcomes.</li> </ul>	<ul style="list-style-type: none"> <li>• A review of the STEM which will identify areas for improvement that assist in increasing trade volume, price relevance and STEM predictability is planned. Scoping will begin in December 2009 and will include a review of the linkages to the Balancing review.</li> <li>• The IMO is currently upgrading its IT systems to provide a better platform for transparency.</li> </ul>
Changes to planning standards, application processes and charging regimes should be made to facilitate the connection of new generation, especially in remote areas and where clusters of generators may share transmission facilities	<ul style="list-style-type: none"> <li>○ The AEMC report also notes the following points:</li> <li>○ The unconstrained network planning standard should be relaxed;</li> <li>○ Capacity ratings for transmission lines serving wind-powered generators should take wind chill into account;</li> <li>○ Connections queue should be visible to prospective applicants;</li> <li>○ Western Power's policies relating to planning and charging for connection of multiple generators should be further refined;</li> <li>○ The regulatory approvals process for network augmentations should be streamlined; and</li> <li>○ The charging regime for network augmentations should be reviewed to reduce uncertainty and ensure price signals are accurate and visible.</li> </ul>	<p>Western Power – Review of Access Queuing Policy: Western Power is currently consulting with industry and an amended Access Queuing Policy is expected in April 2010.</p> <p>Western Power to submit its draft proposal for altering the Applications and Queuing Policy to the Economic Regulation Authority in early 2010.</p>
No fundamental change should be made to energy market frameworks with regard to the interaction between the electricity and gas markets.		<p>MAC – Market Rules Evolution Plan: Review the original Market Design premise that Market Participants wanted to be aware of their electricity positions prior to making their gas nominations and assess whether a closer alignment of these windows or swap of nomination times should occur. Scoping will begin in December 2009 will include a review of the</p>

AEMC Recommendation	Further Details	Currently underway
		linkages to the Balancing review.
The basis on which capacity credits are allocated to Intermittent Generators should be reviewed.		Underway as part of the REGWG work.