
**Wholesale Electricity Market
Rule Change Proposal Submission Form**

RC_2008_27 – Funding of Supplementary Reserve Capacity

Submitted by

Name:	Shane Cremin
Phone:	9261 2908
Fax:	9488 7330
Email:	shane.cremin@thegriffingroup.com.au
Organisation:	Griffin Energy
Address:	L 15, 28 The Esplanade, Perth, WA, 6000
Date submitted:	10-10-08

Submission

1. Please provide your views on the proposal, including any objections or suggested revisions.

The costs associated with the Supplementary Reserve Capacity (SRC) mechanism are difficult to apportion. Griffin believes that, as presently constructed, the capacity market – and its associated capacity refund and SRC mechanisms, are poor levers for managing reliability in an efficient manner. While reform of this system will take some time and considerable effort, Griffin supports this specific amendment to the current method of apportioning the costs associated with SRC.

While Market Customers can manage their exposure to potential SRC costs, Griffin believes that large incumbent retailers are much better placed to do this, representing a considerable barrier to entry into this space. Considerable because the potential impact of the related costs from a severe SRC event would bankrupt many of the less well established retailers in the market. While generally, markets should not insulate poorly managed participants, they should also recognise the benefits of supporting competition over incumbent monopolies through sensible regulation.

Griffin would prefer to see a longer term trend for meeting the costs of SRC events through the allocation of a proportion of capacity refunds to a pool of reserves managed by the IMO specifically for this purpose. Whether this pool of funds is then used to pay for SRC services, or to improve reliability in other manners; such as investing directly in (or subcontracting) the construction of peaking generation facilities, should be investigated as a longer term review of the WEM capacity mechanism.

2. Please provide an assessment whether the change will better facilitate the achievement of the Market Objectives.

The IMO contends that this rule change proposal supports market objectives (a) by improving economic efficiency through spreading the cost of SRC among Market Customers and (b) by encouraging competition among retailers. Market objective (a) is:

to promote the economically efficient, safe and reliable production and supply of electricity and electricity related services in the South West interconnected system;

and market objective (c) is:

to encourage competition among generators and retailers in the South West interconnected system, including by facilitating efficient entry of new competitors

Griffin does not agree that objective (a) is supported in that efficient markets often lead to participant failure. So implementing this rule change proposal is actually applying regulation to discourage efficient market behaviour. However Griffin believes that the long term effective operation of the market is aided by competition among retailers, objective (c), and that this in turns leads to the reduction of the long term cost of electricity supplied to customers, objective (d). On balance, Griffin believes that sensible regulation to prevent market failure and improve the long term function of the market is more beneficial than applying strict market efficiency principles in this case. As such, Griffin believes that this rule change proposal should proceed.

3. Please indicate if the proposed change will have any implications for your organisation (for example changes to your IT or business systems) and any costs involved in implementing these changes.

Griffin will need to reassess its potential exposure, as a retailer, to the costs associated with SRC.

4. Please indicate the time required for your organisation to implement the change, should it be accepted as proposed.

Griffin believes that while there may be some additional exposure to the costs of SRC events, that this will be manageable in a well functioning and reliable market.
