

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

**RC\_2010\_11 Removal of Network Control Services Expression of  
Interest and Tender Process from the Market Rules**

**Submitted by**

<b>Name:</b>	Ky Cao
<b>Phone:</b>	08 9420 0300
<b>Fax:</b>	08 9474 9900
<b>Email:</b>	<a href="mailto:k.cao@perthenergy.com.au">k.cao@perthenergy.com.au</a>
<b>Organisation:</b>	Perth Energy
<b>Address:</b>	Level 4, 165 Adelaide Tce, Perth WA 6004
<b>Date submitted:</b>	29 November 2010

**Submission**

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

**Background**

The Market Rules currently allow for Network Control Services (NCS) to be provided by Generators and Demand Side Management (DSM) providers. A NCS is an alternative to investing in a network augmentation in the transmission or distribution network. To meet the efficiency objectives underlying its regulatory framework, Western Power, as the Network Operator, should seek to use a NCS where this option provides a net benefit when compared to direct investment in its transmission or distribution network.

NCS may be dispatched out of economic merit order to ensure delivery of the NCS. NCS providers receive both capacity and energy payments from the market. In addition, NCS providers are paid for their energy on a pay as bid basis, effectively displacing other options (normally Verve Energy) that would be paid the MCAP rate. This may, however, lead to cross subsidies between all Market Participants and those that benefit from the provision of the NCS (normally a sub group of Market Generators and DSM providers).

The Market Rules prescribe that the Independent Market Operator (IMO) should undertake any tender process for procuring NCS. Any tender process is triggered by the Network Operator making a request to the IMO with reference to provisions in the Access Code which

allow for the NCS to be tendered for. However, no such provision exists in the Access Code and the tender process can therefore not be triggered by the Network Operator.

The Office of Energy presented an issues paper to the Market Advisory Committee (MAC) in April 2010 recommending that the tendering process should no longer be undertaken by the IMO, but rather by the Network Operator with regulatory oversight by the Economic Regulation Authority.

### **Change Proposal**

On 15 October the IMO submitted RC\_2010\_11 "Removal of Network Control Services Expression of Interest and Tender Process from the Market Rules".

The rule change proposal seeks to amend the Market Rules to delete any reference to the tendering for NCS and thereby remove the requirement on the IMO to conduct any tendering for NCS. Any tendering for NCS will be the responsibility of the Network Operator (although no reference to the tendering process will be made in the Market Rules).

The rule change proposal also seeks to address the current potential for cross subsidies to flow from the energy payments made to NCS providers when dispatched. The IMO has proposed that NCS providers be paid in the following manner:

- NCS providers that are Generators be paid at the prevailing MCAP rate; and
- NCS providers that are DSM providers be paid at a rate of zero.

### **Perth Energy's Views**

Perth Energy agrees that it would be more appropriate for Western Power, being the Network Operator, to be responsible for any tendering for NCS. Western Power should be in a better position than the IMO to assess the need for any NCS and evaluate the response to any tender process. NCS is an alternative to Western Power making a capital investment in its network, leading to an increase in its Regulated Asset Base, and it is in Perth Energy's view entirely appropriate that the tendering for NCS is conducted entirely by Western Power with regulatory oversight by the ERA. The ERA has an oversight role for ensuring that investments in Western Power's transmission and distribution networks are economic efficient and the evaluation of alternatives to investment is one of the key matters taken into consideration by the ERA in this process.

Perth Energy also agrees that the Market Rules as they are currently formulated have the potential to create a very significant cross subsidy between all Market Participants and those that benefit from the provision of a NCS. This potential cross subsidy arises mainly from the different treatment in payment for energy from NCS providers (pay as bid) compared to the payment to the default balancer, Verve Energy (paid at the MCAP rate). Cross subsidies in general lead to inefficient and sub-optimal economic outcomes. Perth Energy supports the proposed removal of the potential for cross subsidies to flow from Market Participants to the beneficiaries of NCS.

Perth Energy notes that the change proposal stipulates that providers of NCS that are Generators should be paid the prevailing MCAP rate and that DSM providers that also provide NCS should not be paid for energy when providing a NCS. Perth Energy considers

that Western Power and any potential NCS providers should agree contractually as to how any exposure to differences between MCAP and revenue requirements of the NCS provider are dealt with in the bilateral contract between Western Power and the NCS provider.

Perth Energy fully supports the proposal to pay Generator NCS providers the MCAP rate and not to pay DSM NCS providers as a reasonable way to deal with the current potential for cross subsidies flowing from NCS being dispatched in the WEM.

In conclusion, Perth Energy fully supports the change proposal.

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

Perth Energy considers the change would better facilitate the achievement of Market Objectives<sup>1</sup> (a) and (b) by making the Market Rules more aligned with the Access Code that applies to Western Power and also by removing the current potential for a very significant cross subsidy to flow from Market Participants to beneficiaries of NCS.

**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.**

There will be no impact for Perth Energy.

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

Perth Energy does not require any lead time to implement the change.

---

<sup>1</sup> The objectives of the market are:

- (a) to promote the economically efficient, safe and reliable production and supply of electricity and electricity related services in the South West interconnected system;
- (b) to encourage competition among generators and retailers in the South West interconnected system, including by facilitating efficient entry of new competitors;
- (c) to avoid discrimination in that market against particular energy options and technologies, including sustainable energy options and technologies such as those that make use of renewable resources or that reduce overall greenhouse gas emissions;
- (d) to minimise the long-term cost of electricity supplied to customers from the South West interconnected system; and
- (e) to encourage the taking of measures to manage the amount of electricity used and when it is used.