

Wholesale Electricity Market Rule Change Proposal Submission Form

RC_2010_33 Cost LR

Submitted by

Name:	Ky Cao
Phone:	08 9420 0300
Fax:	08 9474 9900
Email:	k.cao@perthenergy.com.au
Organisation:	Perth Energy
Address:	Level 4, 165 Adelaide Tce, Perth WA 6004
Date submitted:	4 February 2011

Submission

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

Background

Ancillary services such as load following, spinning reserve and black start are procured for the Wholesale Electricity Market (WEM) by System Management. The Economic Regulation Authority (ERA) approves the annual budgets for recovering the cost of providing these services. The costs of ancillary services provision are recouped from Market Participants during the monthly settlement runs performed by the Independent Market Operator (IMO).

In principle, any Market Participant may provide ancillary services. However, Verve Energy has a special role in the operation of the WEM, as default provider of ancillary services.

Providers of ancillary services are paid as bid, except for Verve Energy. Verve Energy is paid any balance remaining in the allowable cost pool for ancillary services once payments to other providers have been made.

Verve Energy has identified that it is possible that the ERA may set the allowable cost for system restart at zero. If other parties elect to provide the system restart service at a non zero cost, this may result in Verve Energy being paid a negative amount. That is, Verve Energy may be required to make a payment to provide the ancillary service of black start.

Change Proposal

On 17 December Verve Energy submitted a change proposal to amend the settlement calculations in the Market Rules to ensure that Verve Energy will not be required to pay for the privilege of providing ancillary services.

Perth Energy's Views

Perth Energy supports the change proposal from Verve Energy. The anomaly that has been identified should be addressed as soon as possible to ensure that Verve Energy is not penalised for performing its role as default ancillary services provider.

Perth Energy also supports a further development of the ancillary services market to introduce more meaningful competition for these services. In this regard, Perth Energy welcomes the recent presentation to the Market Advisory Committee (MAC) by System Management, delivering a proposal for how the marketplace may towards more competitive provision of ancillary services.

Perth Energy looks forward to participating in any development work that may be required to move towards more competitive ancillary services provision.

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

Perth Energy considers the proposed changes would have a beneficial impact on Market Objective¹ (a) in particular as it would address some potentially significant issues relating to reflecting the true cost of ancillary services to all Market Participants. Without the change, significant cross subsidies could flow from Verve Energy to other Market Participants impacting economic efficiency in the use and production of electricity.

¹ 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.

Perth Energy has not identified any detrimental impacts on any of the other Market Objectives.

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.

Perth Energy has not identified any significant cost or IT issues in relation to this change proposal.

3. 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 proposal.