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## Wholesale Electricity Market Rule Change Proposal Submission Form

### <RC\_2011\_02> Reassessment of Allowable Revenue during a Review Period

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#### Submitted by

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<b>Date submitted:</b>	12 May 2011

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#### Submission

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

System Management supports the assertions made by the ERA in RC\_2011\_02 and, also supports the amendments proposed to address these issues. Resolving this uncertainty will further incentivise System Management to seek to present the best possible assessment of its costs in providing System Operation Services.

Despite this, at times the influence of unanticipated events and the complex physical and commercial nature of the WEMS will require reassessment of original plans, or result in a different outcome from that which was originally intended.

System Management agrees that Inflexibility in funding arrangements both within and between review periods is unlikely to contribute to the achievement of the best system outcomes. An inability to seek assessment, and ultimately approval, in relation to the cost implications of changes to strategy or delivery methods does not encourage responsiveness to changes in external conditions.

Since market start, System Management has, on numerous occasions, demonstrated its capability to respond effectively to significant threats to supply security despite any issues with the market/regulatory structures. However, System Management agrees that, in relation to the second issue raised by the ERA, the current threshold is excessive and a reduction would contribute to improved transparency and accountability.

In relation to the third issue raised by the ERA, System Management is also supportive of the need for it to request on an 'ad-hoc' basis, regulatory oversight of costs which were not envisaged at the time it made the relevant Allowable Revenue submission. Addressing this issue will assist in the timely and effective response to unforeseen circumstances.

The Market Evolution Project is a good example of the difficulty this inflexibility can cause. In the absence of other information, recent decisions by MAC, and subsequently the IMO board, to proceed with implementation of the MEP project is taken as an endorsement by the broader industry including the Office of Energy and the ERA of a need to commit the additional resources necessary to undertake the project. In response, System Management is committed to achieving the best possible outcome for the industry and has recently established a dedicated project office to coordinate its involvement with the IMO's MEP project team.

Expert advice and project support have been engaged on a contract basis and internal resources drawn from System Management's Senior Management team have been committed to the project on a full time basis, To ensure that 'Business as Usual' is not compromised; the staffing gaps created by these secondments will also need to be filled.

The cost of these activities was not considered by the ERA in its AR2 decision and therefore have not been subject to the normal level of independent scrutiny. Although System Management will ensure that the ERA remains fully briefed on its ongoing contribution to the MEP project, it would be preferable for the ERA to consider the expenditure before it was committed. This level of oversight, which is necessary to ensure that System Managements response to the MEP is a prudent use of market funding, is prevented under the current market rules.

The ERA's proposal would resolve the problem and is supported by System Management on this basis.

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

System Management believes the proposed rule changes better facilitate the achievement of the Market Objective (a), (b), and (d).

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**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.**

This rule change proposal will not impose significant costs to System Management's processes.

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

This rule change proposal implementation date does not pose issues to System Management.

