

Wholesale Electricity Market Rule Change Proposal Submission

RC_2017_06

Reduction of the prudential exposure in the Reserve Capacity Mechanism

Submitted by

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Submissions on Rule Change Proposals can be sent by:

Email to: rcp.secretariat@rcpwa.com.au

Post to: Rule Change Panel
Attn: Executive Officer
C/o Economic Regulation Authority
PO Box 8469
PERTH BC WA 6849

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

Community Electricity supports the proposal, with particular emphasis on the principles of:

- i) keep the magnitude of prudential support fit-for-purpose so as to properly protect the market from default without unnecessarily increasing the capital required;
- ii) permit excess capacity allocations and liquidate them at the market price and offset against the prudential requirement;
- iii) reduce the N-3 lag & overhang as close as practicable to real time

We suggest care be taken in the wording of the transitional provisions to ensure that during the first month of application the liability in respect of a load is proportioned across the three month period rather than corrupted into charges being applied for all three months all at the

same. In particular, we perceive that clause 1.21.3 could benefit from clarification to the following effect, **in this font**.

1.21.3 For the first Trading Month during which the Post-Amended Rules come into effect, the references to “Trading Month n” in relation to $d(u,i)$ and $d(v,i)$ values in Step 6 of Appendix 5 are to be read as “**the total period represented by** Trading Months n-3, n-2, n-1 and n”.

While we acknowledge that the rule change is concerned with the capacity mechanism, we consider that the commensurate changes to the Market Procedures should also take the opportunity to review prudential provisions in respect of Balancing Energy. In particular, the separate STEM and NSTEM components of the prudential support calculation would ideally recognise that energy is bought from either the STEM or from Balancing, but not both at the same time. As matters currently stand, a retailer that switches between STEM and Balancing from time to time must lodge prudential support in respect of a proportion of its energy in both mechanisms.

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

Community Electricity supports AEMO's assessment of the congruence of the Rule Change with the Market Objectives. Noting that the Market Objectives are necessarily to some extent interrelated and conflicting, we consider that the proposal properly preserves the proportion and balance of the issues contemplated by offsetting expenses with savings as far as practicable.

In respect of the N-3 lag & overhang, we consider that this aspect of the rule change is important beyond the reasons stated as it removes the traditional asymmetry that disadvantages Synergy (as the original incumbent retailer) when a customer churns for the first time. That is, for a first-time churn, Synergy is subject to the 3 month overhang while not having enjoyed the corresponding 3 month capacity holiday. While Synergy has already born this impost for existing privately supplied customers, it would be avoided for FRC.

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.

None

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

Not applicable
