AUSTRALIAN ENERGY COUNCIL

Economic Regulation Authority
4th Floor Albert Facey House
469 Wellington St
PERTH WA 6000

26th February 2018

Submitted online via: www.erawa.com.au/consultation

Dear Sir/Madam,

Balancing Submission Guideline

The Australian Energy Council (the "**Energy Council**") welcomes the opportunity to make a submission to the Economic Regulation Authority's (**ERA**'s) *Balancing Submission Guideline – DRAFT*.

The Energy Council is an industry body representing 21 electricity and downstream natural gas businesses operating in the competitive wholesale and retail energy markets. These businesses collectively generate the overwhelming majority of electricity in Australia, and sell gas and electricity to over ten million homes and businesses.

The Energy Council appreciates the ERA setting out its interpretation of undefined terms in Rule 7A.2.17, but notes that the Guideline is not binding on the ERA, therefore much of the comfort offered by the Guideline is diminished. Use of the Guideline is also limited since it appears inconsistent with the market objectives and inconsistent with other obligations imposed upon market participants.

In addition, the Energy Council has residual concerns that the Wholesale Electricity Market's ("**WEM**'s") current market power mitigation arrangements need material revision rather than the issue of clarifying guidelines, to improve flexibility, reduce participant intrusion and achieve a reasonable balance between the ERA's market power concerns and a reliable, competitive wholesale market.

Discussion

At page 4 the Guideline discusses Short Run Marginal Cost and the ERA implies that production can be continuously variable beyond the minimum generation level. This doesn't match the physical parameters of generation plants, which have strong links between changes in output level and the current output of the plant at the time the changes are sought.

It is also noted (at page 8) that, "[p]rices in the separate capacity market provide a signal as to the adequacy of generation capacity and the need for investment". While the capacity market provides generators with a return on their investment, it cannot be guaranteed that this will be sufficient to justify the capital required. Instead investment decisions are likely to be made by forecasting both capacity mechanism returns and variable returns from generation. Therefore generators may seek to derive an economic return from multiple sources, and offers to the WEM may be reflective of generators seeking adequate returns to match their risk appetites rather than exercising market power. The ERA needs to be cognisant of this when assessing generators against the Rule, and needs to ensure that any guideline is as broad as practicable to encourage competition.

Furthermore, while the Rule specifies, "for any Trading Interval", the Energy Council submits that the ERA has the freedom within its Guideline to assess market power behaviour over a number of trading

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intervals. Indeed, it would make more sense to determine whether market power has been exercised or not by considering a collection of different but related trading intervals, for example a series of trading intervals over a number of hot weekday afternoons. In this way the ERA will obtain a clearer picture of whether the exercise of market power has occurred (and been sustained) rather than investigating an isolated trading interval which may be affected by multiple factors.

This is reinforced by the third example provided in the paper. As it stands, the ERA assesses the Average Variable Cost by reference to MinGen of 105MW and an expectation that the plant, after start-up, would run for 12 trading intervals. By assessing the generator's costs in this way, the ERA does not consider the gas needed to achieve MinGen, nor possible variations in the expected run time of the generator. Both these factors are likely to affect the Average Variable Cost significantly.

Conclusion

The Energy Council cautions against the ERA reading the rule too narrowly and hence not considering the practicalities of the WEM, such as forecast error and other market uncertainties. There is a risk that use of the Guideline may hinder the WEM settling at competitively determined prices leading, in turn, to sub-optimal economic outcomes as a result of inefficient investment.

Should you have any questions in relation to this rule change request please contact the writer at Duncan.MacKinnon@energycouncil.com.au or 03 9205 3103.

Yours faithfully,

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