

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.

Change Energy welcomes the opportunity to provide a further submission to the Rule Change Panel (**RCP**) on the *Rule Change Proposal: Reduction of the prudential exposure in the Reserve Capacity Mechanism (RC_2017_06)* with respect to the cost benefit analysis undertaken by the RCP concerning the costs of implementing the Rule Change.

Change Energy supports the full implementation of the Rule Change as set out in the Draft Rule Change Report dated 30 November 2017 despite the increased estimated cost in implementation.

Change Energy views the alternative of simply increasing credit support to cover the n-3 IRCR exposure as extremely inefficient that goes against Wholesale Market Objectives (a), (b) and (d).

Response to Questions raised in the call for further submissions

- (1) What impact do AEMO's updated cost estimate and this cost-benefit analysis have on your views of RC_2017_06?

The updated cost estimate is disappointing, although it has been noted in the report that the estimate is conservative and includes a contingency. It would be useful for AEMO to provide a report on the cost of this project compared to similar sized projects that have previously undertaken.

- (2) Do you agree with the Panel's approach to the cost-benefit analysis of RC_2017_06? If not, please provide reasons and propose an alternative approach.

Change Energy does not believe a cost benefit analysis is warranted for this type of rule change. There are far too many intangible considerations that are hard to measure. For example;

- The cost to customers due to reduced competition as increased prudential requirements may restrict the growth of new retailers;
- The cost to customers and all WA taxpayers of increased State borrowing costs because of Synergy's increased prudential requirements;
- Synergy's cost of capital advantage would increase, reducing competition.

Lastly, Change Energy it appears that Synergy was consulted during the work on the cost benefit analysis and other market participants where not given that opportunity.

- (3) What are your per dollar costs of providing Credit Support?

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- (4) Given the nature of AEMO's investment in systems and your costs to implement RC_2017_06:

- (a) What do you consider to be a reasonable payback period?

Change Energy does not believe that payback period is the appropriate measure in evaluating this Rule Change.

- (b) What do you consider to be an appropriate discount rate for use in this cost-benefit analysis?

While Change Energy does not believe a cost benefit analysis is required for this rule change – to the extent the analysis is being completed – the discount rate should reflect the risk to AEMO in investing in the project. As AEMO can recover operating and capital expenditures through market fees, the investment risk is minimal which should result in a minimal discount rate.