



CHAMBER OF COMMERCE AND INDUSTRY  
WESTERN AUSTRALIA

7 September 2007

Discussion Paper: Annual WEM Report to the Minister  
Economic Regulation Authority  
PO Box 8469  
Perth Business Centre  
PERTH WA 6849

Dear Mr Chin,

Please find attached the Chamber of Commerce and Industry of Western Australia's (CCIWA) submission to the ERA's consultation on the Discussion Paper for the Annual Wholesale Electricity Market Report to the Minister.

If you require any further information concerning this submission, please contact CCI's Senior Adviser – Industry Policy, Ms Jessica Shaw on 08 9365 7498 or CCI's Senior Adviser – Environment Policy, Ms Brenna Pavey on 08 9365 7514.

Yours Faithfully,

Trevor Lovelle  
Manager – Industry Policy.

## About CCI

CCI is the leading business association in Western Australia. It is the second largest organisation of its kind in Australia, with a membership of approximately 5,000 organisations in all sectors including manufacturing, resources, agriculture, transport, communications, retailing, hospitality, building and construction, community services and finance.

Most members are private-sector businesses, but CCI also has representation in the not-for-profit sector and the government sector. Over 80 percent of members are small businesses, and members are located in all geographical regions of WA. Some 100 business associations are affiliated with CCI, expanding the organisation's representative coverage to more than 10,000 enterprises.

## General Comments

The Authority's Discussion Paper states that, in light of the extensive consultations that were undertaken during the restructuring of the electricity industry in Western Australia, and the short time since the WEM has been operating, this first report should be focused on the assessment of the effectiveness of the WEM at a fairly high level.

CCI agrees with this statement and considers that it is premature to recommend significant changes to the market's operations at this early stage. CCI's comments will be general in nature and will be directed to potential improvements in the current structure of the market.

## Comments on Discussion Points

### **Discussion Point One: The extent to which the operation of the reserve capacity mechanism is effective in achieving the objectives of the wholesale electricity market.**

CCI considers that the reserve capacity mechanism is generally functioning to ensure sufficient capacity is placed on the southwest interconnected system.

The standard reserve capacity processes provides for a two year timeline between the bilateral trade/auction process and the commencement of the obligations associated with capacity credits. The two-year cycle in the context of WA's current economic conditions can, however, present significant challenges. Since the establishment of the wholesale electricity market, WA has experienced unprecedented economic growth. The level of economic activity has contributed to labour shortages, delayed government approval processes, shortages of construction materials, and well documented fuel supply constraints. New electricity generating projects often struggle to meet the two year timeframe set for completion. CCI considers that a three to four year timeframe for project delivery may be more realistic.

CCI recognizes that three to four year project time frames may present challenges for forecasting processes. Accurate projections over three to four year time frames may be difficult to achieve. If a three to four year cycle is adopted, there may be a need for a balancing or adjustment mechanism closer to the time the generating project is expected to deliver energy on to the grid.

We are also concerned about the different treatment given to wind generating facilities under the reserve capacity mechanism, compared to other renewable energy technologies.



CCI supports the retention of the reserve capacity mechanism, but recommends that adjustments should be made when market conditions change.

**Discussion Point Two: Whether the current Wholesale Electricity Market provides adequate incentives for an efficient mix of generation plant.**

Since the WEM has commenced operations, additional capacity has been attracted onto the SWIS. Whether the mix is "efficient" has yet to be determined.

CCI recommends that the Authority investigate whether the current mechanism is encouraging sufficiently flexible generating plant. Whilst base load power and distillate-fueled peaking plant are both encouraged onto the network, it is less clear whether the market is sending appropriate signals to encourage mid merit more flexible generation. Over the longer term, system security could potentially be compromised if insufficient amounts of flexible plant exist.

**Discussion Point Four: Whether the wholesale electricity market adequately promotes investment in an efficient amount of generation capacity.**

We consider this issue relates closely to the comments made in relation to Discussion Point One. Currently the right amount of capacity exists, however there remains uncertainty as to whether the generation is efficient.

**Discussion Point Seven: The day ahead feature of the Short Term Energy Market.**

CCI considers that it is premature to suggest an alteration to the current timing of the STEM process. Over the longer term, however, introducing two gate closures, or gate closures closer to real time should encourage greater market participation.

CCI notes that small amounts of energy are traded through the STEM and significant costs are associated with participating in the trading process, which may in fact act as a barrier to entry for small organizations.

**Discussion Point Eight: The effectiveness of the Independent Market Operator in carrying out its functions**

CCI considers that it is too soon to assess the effectiveness of the Independent Market Operator. We understand however, that there are issues with the invoicing and settlements process which has experienced delays. Such delays will create difficulties for small generators in particular.

CCI understands that many problems may have been caused by the difficulties with the IMO's information technology systems but that action is being undertaken to rectify this.

**Discussion Point Ten: Steps to assist rule participants in understanding the market rules.**

CCI is aware that many current and potential market participants experience difficulties understanding and keeping up to date with the market rules.

CCI recommends that the IMO develop training sessions targeting current and potential market entrants. Training sessions should raise awareness of the market rules, provide information on latest rule developments and increase knowledge in the broader business community regarding the operations of the electricity market more broadly.

## **Discussion Point Eleven: Aspects of participation of demand side management**

CCI considers that there is considerable unexplored potential for demand side management (DSM) in the WEM. Market structures to encourage the entry of DSM need to be developed and market participants also have yet to develop a full understanding and awareness of DSM within the electricity industry. We consider the bigger issue however, is that non-market participants do not understand or are largely unaware of the opportunities which exist to trade demand side responses in to the market. DSM could constitute a valuable income stream for businesses capable of interrupting their load. DSM could also simultaneously deliver significant capacity savings to the network, delaying or removing altogether the need to bring on substantial new generating facilities and/or undertake major transmission network upgrades or augmentations.

CCI strongly believes there is a need for better education of potential rule participants especially those who could be involved in the WEM, but currently are not.

Market reforms should be aimed at encouraging a greater level of demand side response trading. Consideration should be given to structuring capacity mechanisms to reflect and remunerate the varying types of demand side response (dependent on flexibility).

## **Discussion Point Twelve: The adequacy of the rule change process.**

As noted previously CCI considers that it is early days in the operation of the WEM however, we are satisfied with the rule change process although we would reiterate that changes to the market rules should undergo adequate stakeholder consultation.

## **Discussion Point Thirteen: Fuel supply constraints.**

CCI's concerns regarding gas supply constraints have been well documented.<sup>1</sup>

We understood however that when the WEM was designed, new generation facilities would primarily be combined cycle gas turbine plants. Gas supply constraints, however, have altered the situation.

Small generators in particular been affected by gas constraints, and have been unable to secure the supply contracts for new generating facilities. New plant tends to be coal or distillate fired. This could potentially lead to significant cost increases for electricity over the longer term if a carbon trading scheme or carbon price is imposed on the stationary energy sector.

## **Conclusion**

CCI continues to fully support the ongoing development of the WEM, as we strongly believe that it will bring long-term economic benefit to the West Australian community.

CCI notes, however, that one of the greatest challenges impacting on the development of the WEM is the lack of an overarching, strategic State energy policy that covers vital issues such as generation mix, the role of fossil and non-fossil fuels (including nuclear), infrastructure development and access to fuel sources.

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<sup>1</sup> Chamber of Commerce and Industry *Meeting The Future Gas Needs of Western Australia* (2007).

Government statements are made regarding various policy initiatives but the detail concerning how these programmes and policies interrelate and what part they may play in the State's energy future is rarely articulated.

The State Government's domestic gas reservation policy reflects a perception by Government on the availability of gas for the domestic market, but does not take a holistic view of the market. It ignores the physical constraints and difficulties throughout the entire supply chain. The lack of coordination and articulated strategic vision for WA's energy future has created a climate of uncertainty, making WA a potentially less attractive place to do business.

CCI has strongly urged the State Government to develop a comprehensive energy policy that provides the basis for the State's energy security and future development, and recommends that the Authority consider this issue as part of its review of the electricity market.

CCI's Senior Adviser – Industry Policy, Jessica Shaw, would be willing to provide further information regarding this submission. Ms Shaw can be contacted on 08 9365 7498 or [Jessica.Shaw@cciwa.com](mailto:Jessica.Shaw@cciwa.com)

Yours Faithfully,

Trevor Lovelle  
Manager – Industry Policy