



Our ref: RCM/0394-10  
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Dear Lyndon

## REVIEW OF THE RETAIL ENERGY MARKET COMPANY ("REMC") SCHEME

The Office of Energy thanks the Economic Regulation Authority (the "Authority") for the opportunity to comment on the *Review of the REMCo Gas Retail Market Scheme – Issues Paper* (the "Issues Paper").

As you are aware, the Office of Energy was involved in the establishment and implementation of the REMCo scheme in Western Australia, and had responsibility for oversight of the REMCo scheme in Western Australia prior to transfer of this responsibility to the Authority on 31 May 2005. The Office of Energy continues to have policy responsibility in relation to gas market development in Western Australia.

As part of its functions, the Authority is required under section 11ZOQ of the *Energy Coordination Act 1994* ("Act") to review the REMCo scheme as soon as practicable after the third anniversary of its commencement. The purpose of the review is to re-assess the suitability of the provisions of the REMCo scheme to achieve the purposes set out in section 11ZOB of the Act. That is, to ensure that the retail gas market that is supplied through the REMCo scheme is regulated and operates in a manner that is open and competitive, efficient, and fair to gas market participants and their customers.

As indicated to REMCo, as part of the review of the REMCo scheme under clause 17 of the REMCo Rules, the Office of Energy has been satisfied with REMCo's efficacy in operation of the gas retail market in Western Australia over the past three years.

### Operation of the REMCo Scheme

The Office of Energy is of the view that REMCo has performed well in relation to the Rule change process. It appears that the REMCo Rule change process has been implemented in a fair, equitable and timely manner; and is in accordance with legislation, the Rule change process and government policies. It is also considered that the REMCo Rule Change process is consultative and effective, and provides a standard for responsiveness in rule change processes across Australia.

In relation to the REMCo swing service arrangements, it is understood that further development of the swing service portion of the REMCo Rules did not take place in the

context of the Ministerial Council on Energy ("MCE") agreement that the Gas Market Leaders Group ("GMLG") develop the design of a Short Term Trading Market ("STTM").

The GMLG envisaged that the STTM would provide a mandatory price based balancing mechanism for wholesale gas market trading, and replace existing balancing arrangements across states and territories (except for Victoria, which already has a formal gas spot market arrangement). The GMLG's proposal was for the STTM to initially apply to South Australia and New South Wales.<sup>1</sup> It is understood that the GMLG is currently considering the viability of proceeding with a STTM and will make a further recommendation to the MCE on this matter.

Any recommendation to implement a STTM arrangement in Western Australia would need to be subject to detailed consideration by the Western Australian Government, in consultation with stakeholders. It is noted that following recent consultation with gas market industry stakeholders on Bulletin Board business and data requirements, the GMLG has recommended that jurisdictions and stakeholders should be consulted further in respect of Western Australia, Northern Territory and northern Queensland; and that consideration of the appropriate use of a Bulletin Board for their purposes is required.<sup>2</sup>

The Office of Energy also notes the view expressed by the Authority that the REMCo scheme would not have been cost effective without involvement of South Australia. However, the Office of Energy acknowledges that the REMCo scheme was originally to be implemented in Western Australia on its own, without the involvement of South Australia, and still presents a low cost option.

### **National Gas Market Reforms**

The Office of Energy would also like to comment on section 4 of the Issues Paper, which deals with "Future National Reforms and their Impact on the Operation of REMCo".

As noted by the Authority, the Council of Australian Governments ("CoAG") agreed in April 2007 to the establishment of a single industry funded energy market operator for both electricity and gas to strengthen the national character of energy market governance. CoAG has tasked the MCE with developing a detailed implantation plan for establishment of a national energy market operator by the end of 2007, in consultation with stakeholders.

CoAG specified that the national energy market operator would undertake functions performed by the National Electricity Market Management Company and would be "expected" to undertake the functions recommended by the GMLG for a gas market operator, including:

- the functions of the jurisdictional retail gas market operators;
- the Bulletin Board and STTM functions being developed by the GMLG; and
- a gas emergency advisory function to the National Gas Emergency Response Advisory Committee (which has particular relevance for the interconnected eastern states jurisdictions).

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1. Gas Market Leaders Group, *National Gas Market Development Plan – report to Ministerial Council on Energy*, June 2006.

2. Gas Market Leaders Group, *National Gas Market Development Plan – Bulletin Board Business and Data Requirements, Final Report*, September 2007.

The Office of Energy is currently working with the MCE on the development of the national energy market operator, now referred to as the Australian Energy Market Operator ("AEMO"). As a general principle, while it is important that the AEMO be developed with the flexibility to take on a wide range of functions, the Western Australian Government has not committed to implementing the AEMO in relation to gas or electricity market functions in Western Australia.

The Office of Energy is of the view that any transfer of REMCo arrangements to the AEMO is a matter for detailed consideration by Western Australian retail gas market participants, which is consistent with the legislative framework governing the operation of gas retail market schemes in Western Australia. It is envisaged that a decision to transfer Western Australian gas retail market operator responsibilities to the proposed AEMO arrangements would be contemplated, if it was deemed that this would result in greater efficiencies for market participants and would deliver benefits to gas consumers. However, any decision on this matter would need to account for the market operator arrangements in the gas wholesale, and electricity wholesale and retail, markets in Western Australia.

In relation to electricity, the Independent Market Operator ("IMO") is responsible for administration of the Wholesale Electricity Market ("WEM") in Western Australia. There is no intention to transfer the IMO's functions to the AEMO at this time. The Office of Energy is also in the process of reviewing the Western Australian electricity retail market, including consideration of the introduction of full retail contestability in electricity. Should it be decided that electricity full retail contestability is to proceed, consideration will need to be given to options for operation of the electricity retail market; which could involve the AEMO or other potential market operators such as REMCo, the IMO, or a new Western Australian energy market operator. In any case, the electricity retail market scheme would need to successfully interact with the WEM.

The Office of Energy advises that a consultation paper on proposed functions and governance arrangements for the AEMO is expected to be released by the MCE's Standing Committee of Officials for public consultation in the near future.

## **Conclusion**

As a concluding remark, the Office of Energy considers that REMCo is an efficient and effective retail market scheme, and achieves the purposes prescribed under section 11ZOB of the Act. Furthermore, no commitment has been made by the Western Australian Government to transfer REMCo arrangements to the proposed AEMO.

Clarification of any aspects of this submission can be obtained from Mr Stephen Eliot, A/Director-Markets and Regulatory Policy Division, Office of Energy on 9420 5646.

Yours sincerely

**JASON BANKS**  
**COORDINATOR OF ENERGY**

28 September 2007