

4 July 2008



Alinta

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John Lillywhite
Wholesale Electricity Market
Economic Regulation Authority
PO Box 8469
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Dear John

Discussion Paper: Annual WEM Report to the Minister

Thank you for the opportunity to provide comments on the Economic Regulation Authority's (ERA) 5 June 2008 Discussion Paper "Annual Wholesale Electricity Market Report to the Minister for Energy" (the Paper).

The Paper raises a number of important issues. Alinta Sales Pty Ltd (Alinta) would have preferred to address each of the specific issues you raise in the Paper in detail. However, due to significantly increased workloads flowing from the Varanus Island gas supply disruption Alinta has been unable to allocate the necessary resources to compile a detailed written response by the 4 July deadline.

Instead, Alinta has outlined its views on some of the core issues below. In addition, Alinta also met with the ERA prior to the ERA publishing the Paper and highlighted the core issues of concern at that meeting. Alinta would welcome any additional formal or informal forums for further consultation on the issues prior to the ERA finalising its report.

Alinta's specific comments are detailed below.

Discussion points 2 and 10

Discussion point 2 relates to how fuel constraints may impact on the day-to-day operations of and outcomes in the market. Discussion point 10 relates to the potential impact of moving gate closure in the STEM closer to real time and/or introducing multiple gate closures.

As highlighted in previous submissions, one of the limitations of bidding day ahead into the STEM is that participants are locked into their positions irrespective of changes that may occur during the following day. For example, availability of gas may change due to a curtailment on the gas pipeline. More recently we have also seen more prolonged periods of uncertainty of gas availability with the incidents at the North West Shelf facility on 2 January and the explosion at Apache's Varanus Island facility on 3 June.

Even during normal states of operation the timelines of the gas and the electricity market are not aligned. For example, the STEM is run by 9.50am but parties are not made aware of their imbalance position on the Dampier to Bunbury Pipeline (DBP) until noon at the earliest and

sometimes as late as 2pm. The outworking of this is that market participants face higher uncertainty when making STEM submissions day ahead, with the potential flow on effects on supply made available through the STEM and also the pricing points of that supply.

In the longer term, introducing multiple gate closures, or moving gate closure closer to real time would allow more certainty in decision making resulting in greater participation and a more efficient outcome. In the shorter term, a closer alignment of the timelines in the gas and electricity market would also be beneficial for increasing the level of certainty in the information that market participants use when taking positions in either market.

Discussion points 3, 4 and 5

Discussion points 3,4 and 5 all relate to the interaction between Western Power's network access regime and the capacity and energy markets.

Alinta has previously commented extensively on a range of topics in relation to the interaction between network access issues and the capacity and energy markets. We refer to our comments in response to last year's review of the electricity market and also our comments made in our 10 November 2005 and 19 May 2006 submissions to the ERA's consultation on Western Power's access arrangement. In particular, Alinta remains concerned that the capital contributions policy currently applied may lead to sub-optimal outcomes and that a move to shallow connection charging should be adopted.

For ease of reference Alinta has reproduced the relevant bullet points outlining its reasons for concern with the current deep connection charging approach as set out in Alinta's 19 May 2006 submission:

- Alinta is concerned that the approach to capital contribution that is adopted under the Access Code and the Model Capital Contributions Policy (**Model CCP**) will effectively result in barriers to entry in markets upstream and downstream of the network, which will have a negative impact on competition on those markets and potentially result in non-compliance with the Code objective.
- In Alinta's view, it is fundamental that there should be recognition of the net benefit to users provided through the connection of new generating plant to the network, and accordingly that the capital contributions of new generating plant should be limited to the forecast costs of dedicated connection assets only. In many (if not all) cases, it is not reasonable to require an applicant to contribute to augmentation of the wider network, and therefore a shallow approach to connection charges should be applied generally in relation to the network.
- Capital contributions can impose a significant financial burden on new generating plants. If consumer demand is sufficient to justify a new generating plant, then the costs associated with reactive power works should be shared among all network users. Moving the cost of shared assets into common infrastructure benefits competition in generation, because it removes some of the risk associated with sharing assets. This makes it easier for generators to enter and exit the market, and simplifies charging arrangements.
- Shallow charging is also advantageous because a new user can readily identify the connection assets and hence costs. This means that shallow charging is ultimately more transparent.

Discussion point 12

This discussion point relates to the delivery of ancillary services in the electricity market.

Alinta has on a number of occasions commented on the need for introducing real competition in the delivery of ancillary services. Alinta is pleased to note that System Management currently runs a competitive tender for the system restart service (closing 1 August). Alinta would welcome an extension of the application of the tender process to other ancillary services in the near future.

Discussion point 20

This discussion point relates to the process and scope for planning the development of the market over the longer term.

As highlighted above, Alinta considers it would be beneficial to investigate introducing multiple gate closures and/or moving gate closure closer to real time for the STEM. One of the options that should be explored when looking closer at this is whether it would be possible to deliver the solution via enhancements to existing systems. A complete market system rebuild would obviously have a significant cost attached which would ultimately be borne by customers.

A related issue is that currently the STEM process only allows participants to bid in an aggregated portfolio position. The current process does not allow a completely accurate reflection of physical and economical capabilities of generators to be reflected in the STEM process. The absence of a physical dispatch engine in the STEM process may lead to sub-optimal dispatch of generation in the market. Alinta therefore considers that one issue to consider when looking at future development of the market is whether the inclusion of a physical dispatch engine in the STEM process may be beneficial.

With regards to process, Alinta supports the proposal that the longer term development of the market should be guided by a systematic and consultative process. Alinta also supports the view that the first step in that process should be to establish a broad road map outlining the necessary changes and the most effective way of implementing those changes.

Please call me on 08 6213 7304 to discuss any of the issues raised in this letter in more detail.

Yours sincerely

Kristian Myhre
Manager Market Analytics