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CHAMBER OF COMMERCE AND INDUSTRY
WESTERN AUSTRALIA

4 July 2008

Mr John Lillywhite
Wholesale Electricity Market
Discussion Paper: Annual WEM Report to the Minister
Economic Regulation Authority
PO Box 8469
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Dear Mr Lillywhite

Annual Wholesale Electricity Market Report to the Minister for Energy

Introduction

The Chamber of Commerce and Industry of Western Australia (CCI) welcomes the opportunity to provide comment to the Economic Regulation Authority (the Authority) with respect to the Annual Wholesale Electricity Market Report to the Minister for Energy.

CCI has long advocated the need for an overarching State Energy Policy. The need for such a policy has been further emphasised following the Varanus Island gas incident of 3 June 2008 which has seriously impacted both WA industry and the broader community.

While the Authority's Annual Review of the Wholesale Electricity Market (WEM) stands apart from the recent gas supply issues, discussion points one and two that relate to fuel supply and fuel constraints are pertinent to the problems that have emanated as a result of the Varanus Island gas supply disruptions.

CCI believes that any changes to the operation of the WEM should be undertaken in accordance with an overarching State Energy Policy.

Discussion Point 1: Impact of Fuel Supply and Fuel Prices on the Market

CCI understands that with the introduction of a carbon emissions trading scheme, when choosing an energy source for power generation the proponent will need to include the carbon value of each fuel option as an additional input. We further understand that while gas offers a lower carbon footprint than coal, from the current gas supply constraint highlights the risk of not developing diversified energy sources for power generation in Western Australia.

CCI believes that government policy that encourages diversification of supply in the domestic energy market will better enable investors to make rational decisions based on the economic and risk profiles of alternate energy sources.

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CCI believes that the most appropriate solution is for the WA Government to develop a State Energy Policy that provides a framework for, among other things, investment in energy infrastructure. We believe this would enhance surety for market participants with respect to the long-term supply outlook for energy resources, thereby enabling appropriate fuel price signalling.

Discussion Point 2: Impact of Fuel Constraints on the Market

The recent gas constraint caused by the Varanus Island incident has highlighted the problems inherent in the market during what would be classed as an 'emergency operating state'. While industry participants have operated in good faith to ensure continued industry operations during this time, CCI is concerned that the current market structure does not facilitate appropriate participant actions in times of crisis.

CCI believes that a State Energy Policy should include government response plans for emergency operations that are continually reviewed.

Discussion Point 3: Application Process for Network Access Offers

CCI notes that Western Australia's labour shortages can result in project delays. CCI research indicates that an additional 400,000 workers will be required over the next decade to ensure adequate labour supply to support WA industry.

CCI advocates the simplification of approvals processes and the removal of red tape wherever possible. We have long maintained that delays caused by these imposts reduce the attractiveness of WA as an investment location.

Discussion Point 10: Moving the STEM closer to real-time or introducing multiple gate closures

In the 7 September 2007 submission to the Authority's WEM Report to the Minister for Energy, CCI noted that in the longer term introducing two gate closures, or gate closures closer to real-time, should encourage greater market participation.

CCI continues to advocate that such adjustments would result in net benefits to both the overall STEM system and its participants.

Discussion Point 14: Incentives for DSM to Participate in the Market

CCI believes that one of the predominant factors preventing demand-side management (DSM) from being embraced by the market is the lack of industry knowledge and awareness.

CCI considers that DSM could constitute a valuable income stream for businesses capable of interrupting their load and could simultaneously deliver significant capacity savings to the network, delaying or removing the need to bring on substantial new generating facilities or undertake major transmission network upgrades or augmentations.

CCI fully supports tariff structures that promote energy efficiency and encourage demand side responses. We consider that some form of increasing block tariff may send an appropriate market signal, as would time of use pricing that would encourage consumers to alter their production

processes. Negotiated contracts between retailers and individual consumers could also facilitate demand side responses.

CCI notes the formation of a DSM Working Group by the Market Advisory Committee and is encouraged by the work that group is undertaking with respect to developing improvements to the DSM process. CCI encourages both the ERA and the DSM Working Group to consider methods by which awareness of DSM can be raised.

Discussion Point 15: Rule Change Process and Procedures

CCI is satisfied with the process and procedures currently undertaken with respect to rule changes. The provision of an adequate consultation period must continue to be ensured.

Discussion Point 20: Planning the Development of the Market over the Longer Term

CCI agrees that an effective WEM can assist in achieving competitive outcomes and believe that further development of the WEM should be undertaken as part of a cohesive strategy contained in an overarching State Energy Policy.

Conclusion

The Varanus Island gas supply disruption has exposed the State's dependence on a limited number of domestic gas resources and highlights the need to implement policies that encourage the development of a more diverse primary fuel base.

CCI continues to advocate the need for State Government to develop a comprehensive State Energy Policy that would act as a blueprint for Western Australia's future energy needs. CCI believes that the Authority should consider this issue as part of its review of the Wholesale Electricity Market.

CCI's Senior Adviser, Industry Policy, Andrew Canion would be pleased to provide further detail on this submission. Mr Canion may be contacted on (08) 9365 7688 or email andrew.canion@cciwa.com.

Yours sincerely

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