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Assistant Director Markets
Economic Regulation Authority
PO Box 8469
Perth Business Centre
PERTH WA 6849

**DISCUSSION PAPER: 2013 WHOLESALE ELECTRICITY MARKET
REPORT TO THE MINISTER FOR ENERGY - WESTERN POWER
SUBMISSION**

System Management appreciates the opportunity to provide a submission on the matters raised in the Economic Regulation Authority's (Authority) 2013 Wholesale Electricity Market (WEM) Report to the Minister for Energy.

System Management has prepared a detailed submission in response to the discussion paper.

System Management is the ring fenced business entity within Western Power. It is responsible for the provision of power system operation services under Part 9 of the Electricity Industry Act 2004, which established the Wholesale Electricity Market (WEM).

This submission is confined to relevant issues from a system operator perspective. Responses relating to network operator functions will be lodged separately with the Authority.

System Management welcomes the opportunity to discuss any of the matters raised in its submission with the ERA. Please direct any queries in this regard to Phil Kelloway, Head of System Management, on 9427 5761.

Yours sincerely

for Cameron Parrotte
Executive Manager Network Planning & Operations

System Management

Submission to the Economic Regulation Authority's "Discussion Paper: 2013 Wholesale Electricity Market Report to the Minister for Energy"

Since the commencement of the Wholesale Electricity Market (WEM) in 2006, System Management has been an active participant in the WEM, and is committed to continually support the achievement of the Wholesale Electricity Market Objectives.

System Management's function is predominantly focused on operating the power system in a secure and reliable manner. The comments expressed in this submission reflect this function.

Section 2.2.1 Excess Capacity

The ERA reported

"Given the significance of the issue of excess capacity, the Authority recommends that the Public Utilities Office (PUO) undertake a comprehensive, holistic review of the current market design of the RCM, with a view to steering the long term evolution of the market towards economically efficient outcomes."

System Management still believes this issue raised by the ERA remains unresolved.

Section 4.1.1 The effectiveness of the Rule Change Process and the Procedure Change Process

The ERA reported

"However, the Authority notes that market governance has been an area of concern raised by Market Participants and by the Authority previously. In its 2011 Report to the Minister, the Authority discussed in detail the matter of the dual roles conferred on the IMO under the existing WEM governance arrangements. These arrangements require the IMO to determine whether to approve amendments to the Market Rules and also to administer and comply with the Market Rules. The Authority recommended that the existing governance arrangements in the WEM be reviewed to determine whether the existing arrangements remain appropriate for the ongoing development of the market. This recommendation is still current and relevant and needs to be addressed, particularly in light of the concerns discussed above."

System Management has made public submissions on the effectiveness of the governance of the rule change process in recent years.¹

System Management believes this issue raised by the ERA, and also raised in System Management's previous submissions remain unresolved.

System Management understands that these two issues may be reviewed by the Public Utilities Office in its planned Wholesale Electricity Market Review. As a Market Governance Participant, System Management anticipates the opportunity to make a contribution to this review and the ongoing development of the Wholesale Energy Market.

System Management provides responses to the 2 discussion areas raised by the Economic Regulation Authority (ERA) in its discussion paper.

Discussion Point 1

Stakeholders are invited to comment on:

- **How successful and effective they consider the new balancing market to have been.**

System Management has not observed any adverse impacts to its function of operating the SWIS in a secure and reliable manner as a result of the introduction of the new balancing market. The balancing market has given System Management a greater range of facilities to meet the difference of forecast demand requirements and the actual load requirements.

System Management has worked with Market Participants to successfully enable movement of generation plant in response to changes in demand and offers for supply of energy by the installation of automated dispatch instructions.

System Management makes no comments on pricing outcomes, however it does note the Sapere Report to the IMO is not publicly available and the ability to comment on the effectiveness of the new balancing market is difficult.

- **Improvements, if any, which should be made, including those already identified through the IMO consultation process.**

System Management believes improvements in the transparency of the balancing market could be made to aid the market in determining its effectiveness. One major cost is thought to be Constrained On and Constrained Off payments. The reporting of these is not presently required, but this should be reported and reviewed in the interest of transparency.

¹ <http://www.erawa.com.au/cproot/10092/2/20111128%20-%20Public%20Submission%20-%20System%20Management%20-%202011%20Annual%20Wholesale%20Electricity%20Market%20Report%20to%20the%20Minister%20for%20Energy%20-%20Discussion%20Paper.pdf>

Discussion Point 2

Stakeholders are invited to comment on:

- **How successful and effective they consider the new LFAS market to have been.**

System Management has not observed any detrimental impacts to its function of operating the SWIS in a secure and reliable manner as a result of the introduction of the new LFAS market. The LFAS market has given System Management a wider range of facilities capable of providing the Load Following service.

System Management has worked with a Market Participant to successfully enable automatic movement of generation plant in response to changes in system frequency.

System Management is not privy to pricing information in the WEM however it does note the price of LFAS has risen significantly since the start of the LFAS market.²

- **Improvements, if any, which should be made.**

System Management is working in a joint team with the IMO to examine a number of changes with the aim to minimise the quantity of LFAS required. Progress on this work is provided to the Market Advisory Committee.

- **What barriers there may be for further new entrants to the market.**

System Management believes there are no impediments for a new entrant to integrate its facilities to perform the technical obligations.

System Management prefers Rule or Procedure changes to individual agreements with LFAS providers.

- **Whether the current method of allocating costs to all customers based on monthly aggregate demand, as a proportion of that month's total system load is appropriate.**

System Management makes no comments on cost allocations unless it believes it reduces the incentives to provide capacity to the SWIS.

- **In light of the progress with the LFAS market, whether the development of competitive markets for further ancillary services (such as spinning reserve) should be prioritised.**

System Management makes no comment on development of further markets in Ancillary Services. System Management notes that the IMO's Market Rules Evolution Plan outlines a range of outstanding matters in the WEM requiring further reform. System Management believes further development of Ancillary Service markets should not occur in isolation from addressing these other matters. Moreover, the IMO-System Management LFAS Joint Team has identified the significant interrelationships between LFAS and balancing, and whilst other Ancillary Services

would not be as interrelated, the need for clear definitions for Balancing and Ancillary Services in Market Rules, and ensuring the Ancillary Services requirements are integrated into the whole Rules is critical.

²http://imowa.com.au/f2841,4116159/2013_Ancillary_Service_Report_FINAL.pdf