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Discussion Paper: Annual WEM Report to the Minister
Economic Regulation Authority
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DISCUSSION PAPER: ANNUAL WHOLESALE ELECTRICITY MARKET REPORT

Thank you for the invitation to comment on the above Discussion Paper. The comments detailed below are referenced to the relevant sections of the paper as appropriate.

3.1 The Approach

The Office of Energy (“OOE”) supports the view expressed in the Discussion Paper that the first Minister’s Report should focus on a high level assessment of the effectiveness of the Wholesale Electricity Market (“WEM”), given the relatively short time of full market operation. As a general comment it is noted that the WEM appears to be meeting the market objectives from an overall perspective. It is considered appropriate that any further refinements of these arrangements be addressed through the WEM Rule Change process.

5.1.1 Vesting Contract and Liquidity

The Discussion Paper raises concerns expressed by Market Participants regarding the impact of the Vesting Contract arrangements on the liquidity of wholesale electricity market. As noted in the paper, the Vesting Arrangements are a transitional mechanism implemented on the disaggregation of the former Western Power Corporation, to support the development of the WEM.

The intended key benefits of the Vesting Contract for new market entrants and the development of the WEM include the mitigation of Verve Energy’s wholesale market power, by initially committing the majority of its generating capacity under contract to Synergy. It should be noted that the Vesting Contract is also a bilateral contract, similar to other bilateral wholesale electricity supply contracts traded through the WEM in terms of the impact on market liquidity.

In addition, as displacement of the wholesale electricity occurs under the Vesting Arrangements, the electricity that is displaced will be moved into alternative bilateral contracts. Therefore the absence of the Vesting Contract may have little impact on the liquidity of the WEM, given the design and associated trading arrangements of the market.

5.4.2 Pricing in the STEM

In respect of STEM and balancing prices, it needs to be noted that given the WEM structure, the volumes traded in the STEM and balancing markets are limited. Therefore, they may not be reflective of the pricing in the wholesale supply arrangements as traded through the WEM in the form of bilateral contracts.

5.4.3 Specific Issues in Relation to the Market Rules

The text in this section of the paper notes the views expressed by Market Participants that clause 1.2.1c of the Market Rules may be interpreted as requiring that renewable and sustainable energy options are provided with a relative advantage in the WEM. The OOE considers that the wording of this clause is clear in requiring that discrimination be avoided, such that all generation options (both renewable and non-renewable) are afforded equal opportunity for participation in the WEM.

5.11.1 Fuel Supply Problems

This section of the Discussion Paper notes the concerns raised by Rule Participants regarding fuel supply issues and their impacts on the operation of the WEM. It is noted that the ERA proposes to investigate the impact of gas supply constraints on the operation of the WEM. It is also noted that the ERA considers that addressing gas supply problems is beyond the scope of the review. The OOE agrees with this view and considers that the investigation of gas supply issues is not a requirement of this review process.

5.11.8 Supplier of Last Resort

This section of the paper notes the work that is being undertaken by the OOE with respect to the development of the Supplier of Last Resort ("SOLR") Arrangements. It is important to note that these arrangements are intended to outline the mechanisms that are required to provide for the transfer of customers of a failed retailer, and the continued provision of electricity supply to these customers, following the initiation of a SOLR event. In this regard it is expected that the SOLR arrangements will have a limited impact on the operation and effectiveness of the WEM.

It should be noted that the OOE is also working to progress the development of arrangements to address the continued supply of electricity to customers in the event that a retailer is subject to a WEM suspension notice. However, this is not a SOLR issue. The OOE is currently considering options for ensuring continued supply of electricity to customers in the event that a retailer is subject to a WEM suspension notice, and will initiate a public consultation process on this matter in due course.

5.11.9 Ancillary Services

As noted in the Discussion Paper the WEM Rules currently require Verve Energy to make capacity available to provide ancillary services to a standard sufficient to enable System Management to meet its requirements in this regard. The WEM Rules also allow System Management to enter into an ancillary service contract with another Market Participant, where it considers that it cannot meet its ancillary service requirements with Verve Energy's facilities, or where it considers that another Market Participant can provide these services at a less expensive cost than Verve Energy.

The OOE supports the views expressed in the Discussion Paper regarding the promotion of competitive supply arrangements for the provision of ancillary services and would be interested in discussing this matter further with the ERA.

Should you wish to discuss these comments in further detail please contact Stephen Eliot, A/Director, Markets and Regulatory Policy Division on 9420 5646.

JASON BANKS
A/COORDINATOR OF ENERGY

7 September 2007

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