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Mr Robert Pullella
Executive Director
Economic Regulation Authority
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Perth Business Centre WA 6849

By email: SRMC@era.wa.gov.au

Dear Robert

Short Run Marginal Cost Consultation

Thank you for the opportunity to provide comment on your discussion paper on determining the short run marginal cost for participants in the Wholesale Electricity Market (WEM) in Western Australia.

Alinta Sales Pty Ltd (Alinta) believes ensuring the development of a genuine competitive environment in generation in the WEM would be the best guarantee to ensure long term efficiency in electricity production with the resultant benefits to WA consumers. The WEM should therefore develop towards using competition rather than monitoring of short run marginal cost (SRMC) bidding to ensure an optimal outcome for consumers.

However, Alinta recognises that some level of regulatory oversight may be needed in the absence of perfect competition. The cost of monitoring vs the benefits it may bring should be considered when deciding to what extent the Economic Regulation Authority should develop its SRMC monitoring capability. Any costs associated with such monitoring will ultimately be borne by consumers as the ERA's WEM related expenditure is recovered directly through market fees in the WEM.

Alinta notes that the list on page 12 of the consultation document is only a list of examples of costs. However, for the avoidance of doubt, Alinta would highlight that there are at least two variable cost items that are being incurred by any generator operating in the market that are not listed on page 12. These are the market fees to cover the cost of running the Independent Market Operator, System Management and the ERA and the ancillary services fees. Both cost items are avoidable if not operating.

Alinta also notes the reference made in footnote 8 on page 12 to penalties being imposed under the rules for not meeting reserve capacity obligations and that a regulator would not allow penalties to be included in SRMC calculations. Reference to this is also made in the technical paper on page 33. Section 4.26 of the market rules sets out the refund table that applies when failing to meet reserve capacity obligations. The market rules explicitly define the financial implication of failing to satisfy the reserve capacity obligation as having to refund money already received for holding capacity credits (refund multipliers apply). Representatives of the IMO have also on several occasions in industry meetings stressed that the capacity credit refunds are just that – they are not penalties.

Alinta therefore does not agree that the cost associated with potential capacity credit refunds should automatically be excluded from being allowed in the calculation of SRMC. For example, if a unit is not allowed to come off for planned maintenance due to forced outages on the system, there will be an increased risk of tripping the unit, leading to a forced outage and refunds of capacity credits. This increased risk should be allowed to be reflected in the SRMC.

Alinta notes that labour costs have been classified as entirely sunk in the list on page 12. This may be true for a pure generation set up where labour is hired solely for the purpose of operating the plant. It will not necessarily be true for operations where the labour force that is operating a generator has alternative, non-electricity generating related work assigned.

With regard to start up costs, the list on page 12 defines these costs as sunk for starting a plant prior to the current trading interval. This presents a problem if bidding a plant with no contract cover into the STEM. As the plant would not be scheduled to run unless accepted in the STEM auction it would by definition not already be running. The initial start up cost is therefore avoidable and cost recovery should be allowed. Start up costs would therefore need to be recovered via the STEM bid. This issue has been debated by the energy price limits group and Alinta believes the consensus from the group was to explicitly allow start up costs in the SRMC calculation and discontinue the previous separate start-up cost related payment that is allowed for if receiving a dispatch instruction.

Finally, Alinta is aware that the market rules in clause 6.20.7(b) explicitly allows for a profit margin in the calculation of the maximum and alternative maximum STEM price. As the maximum and alternative maximum STEM prices are supposed to represent the SRMC of the highest cost plant on the system running on non-liquids and liquid fuels respectively, it would seem logical that a risk margin be included in the ERA's calculations when investigating bidding behaviour in the WEM.

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

Yours sincerely

Kristian Myhre
Manager Market Analytics