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Discussion Paper: Annual WEM Report to the Minister
Economic Regulation Authority
PO Box 8469
Perth Business Centre
PERTH WA 6849

Dear Sir

**VERVE ENERGY'S SUBMISSION TO ERA'S DISCUSSION PAPER: ANNUAL
WHOLESALE ELECTRICITY MARKET REPORT TO THE MINISTER FOR
ENERGY – 15 JULY 2009**

Verve Energy welcomes the opportunity to comment on the Economic Regulation Authority's discussion paper on the 'Annual Wholesale Electricity Market Report to the Minister for Energy'.

Yours sincerely

**ANDREW EVERETT
MANAGER STRATEGY & REGULATION**

Discussion Point 3

The Authority invites comment on network connection applications. In particular:

- to what extent would it be appropriate for Western Power to require that a sizeable bond be lodged with an application for network access;
- to what extent would it be appropriate for Western Power to discriminate between connection applicants (other than based on their places in the sequence of the relevant queue); and
- if other means of discrimination between connection applicants are appropriate, taking into consideration Western Power's queuing guide, what should be the basis for such discrimination.

The requirement for a bond to be lodged in conjunction with a network connection application would appear to be a positive move in the promotion of real generation development opportunities. Any mechanism that deters frivolous applications is worthy of consideration.

In relation to the drafting and subsequent application of the Applications and Queuing Policy ('AQP'), Verve Energy is of the opinion that Western Power has misinterpreted the Code. It appears that there is an overriding assumption that every Connection Application is in competition with all others and therefore must be queued. Our view is that the intent of the Code is that the first decision point is whether an application is indeed competing and that only those that are should be queued. While acknowledging that Western Power has formed queues based on geographical location, the full extent of the flexibility available to it under the current AQP to create separate queues has not been exploited.

Verve Energy considers that a more appropriate interpretation of the Code and a more flexible application of the AQP would go a long way in resolving the current issues with obtaining network access in a timely manner.

Nonetheless, Western Power's suggestion that it would prefer a mechanism for prioritising applications based on applicants' readiness to enter a connection agreement is supported.

Discussion Point 5

The Authority invites comment on the decommitment of thermal plant. In particular:

- to what extent is the overnight decommitment of thermal plants consistent with the Market Objectives; and
- given that System Management will be guided by the Dispatch Merit Order and by system reliability considerations, to what extent is System Management's approach for decommitting plant overnight appropriate, transparent and predictable.

The overnight decommitment of thermal plants is not consistent with Market Objectives and, as expressed by System Management, leads to system security issues and economic inefficiency. It also does not comply with the Market Objective to minimise the long term cost of supply.

Reliability and efficiency issues arise since these thermal plants are not designed to regularly shut down. There is a risk of non-return to service the next day in time to meet peak demand, it can shorten the life of the plant and leads to an increased cost of generation.

The decommissioning of thermal plant overnight needs to be more transparent around the process undertaken and the decisions that are made. Verve Energy understands that this process is currently being reviewed.

With respect to the paragraph on page 22 before the Discussion Point 5 which states:

“A key issue in this context is the extent to which both the owners of must-run plant and Verve Energy face appropriate signals in the market regarding the economic efficiency implications of decommitment.”,

there are no appropriate signals in the market regarding the economic efficiency implications of decommitment. Verve Energy’s decommitted plant is bid at SRMC while balancing energy is bought at MCAP. Often, MCAP does not reflect Verve Energy’s SRMC.

Discussion Point 6

The Authority invites comment on issues surrounding the penetration of intermittent generation in the Wholesale Electricity Market. In particular, what approach is required to balance system security and avoid discrimination against any generation technology.

A significant increase in the penetration of intermittent generation will cause system security issues overnight. The displacement of other generators to allow for intermittent generation leads to an increase in costs and lowers the efficiency of dispatch.

Increasing wind energy penetration drives the need, at significant cost, for additional ancillary services such as frequency control and spinning reserve. Other participants may incur those costs even though they are not directly using the services.

The desire to avoid discrimination is expressed in the discussion point. Currently, discrimination exists in favour of must-run intermittent plant which, as discussed above, leads to inefficiency and inappropriate price signal. A suitable resolution may be to cap wind generation at times of erratic supply or low demand.

Verve Energy notes and supports the work undertaken by the Renewable Energy Generation Working Group and IMO’s commissioning of a work program to review the impacts and challenges associated with the increasing levels of intermittent generation penetration into the SWIS.

Discussion Point 7

The Authority invites comment on the adequacy of plant outage information in light of:

- **the potential benefits and costs of wider dissemination of outage information; and**
- **the IMO’s analysis of outage information dissemination in relation to the proposed Rule change RC_2009_05 Confidentiality of Accepted Outages.**

Verve Energy supports the determination of this issue via the Rule Change process through Rule Change RC_2009_05.

Discussion Point 10

The Authority invites comment on the key benefits and costs of installing revenue-quality meters at Verve Energy's plants in place of relying on System Management's Supervisory Control and Data Acquisition (SCADA) data.

The Authority also invites comment on the key benefits and costs of using estimated meter readings for the first round of settlement instead of waiting for all interval meters to be read by the metering data agent.

Verve Energy supports the installation of tariff quality meters on its plant and awaits conduct of the work by Western Power.

Discussion Point 11

The Authority invites comment on competitive balancing. In particular, ahead of the introduction of competitive balancing, to what extent is it appropriate to:

- require the equivalent of a Resource Plan from Verve Energy;
- enhance reporting in respect of outages by unit, and fuel usage changes from plan; and
- make any other operational changes.

Resource Plans are used by System Management to effectively manage dispatch on a particular Trading Day. System Management must schedule Verve Energy's facilities to cover any balancing requirement after allowing the implementation of the resource plans it has received from other Market Participants. Due to Verve Energy's balancing role, it would not make sense, ahead of the advent of competitive balancing, for Verve Energy to submit a Resource Plan. If Verve Energy was to submit a Resource Plan under the current arrangement, it would restrict the choices System Management has on which facility is available to dispatch. Certainly, following the introduction of competitive balancing, it would be appropriate for Verve Energy to submit a Resource Plan in the same way as IPPs currently do.

Further to comments made on page 28: "*Stakeholders also raised the issue that under the current operational regime, it is difficult to understand whether changes in Verve Energy's output are driven by its balancing role or by other reasons*", Verve Energy would like to note that our output is driven by provisions outlined in the market rules regarding our balancing role, ancillary services or system security reasons.

Discussion Point 12

The Authority invites comment on the Rule change process. In particular, given the potential for the more active Market Participants to be better placed to argue their position on Rule change proposals, the Authority invites comment on:

- whether there is sufficient balance in the Market Participant classes represented on the Market Advisory Committee; and
- whether a better resourced Independent Market Operator could address concerns relating to the self-interested positions taken by Market Participants.

Verve Energy considers that there is a good balance of Market Participant classes represented on the Market Advisory Committee ('MAC'). At a stretch it could be argued that the 'Retail' viewpoint holds sway most of the time; however it is difficult if not impossible to achieve a perfect balance.

The MAC has demonstrated itself to be an informed and balanced group and, to a large extent, members have consistently taken an even-handed approach with limited evidence of self-interested position overriding rational discussion. In our view, it is not an issue that needs addressing. However, if it was, it is unclear how the IMO's resourcing level is relevant.

Discussion Point 16

The Authority invites comment on the gate closure timing in the Short Term Energy Market (STEM). In particular, given that the issue of STEM gate closure timing will be considered as a part of the proposed road map process, the Authority invites comment on:

- **leaving the STEM gate closure as it is; or**
- **moving STEM gate closure closer to the start of the trading day.**

While Verve Energy considers that the current gate closure timing is reasonable, there is likely to be significant benefit in allowing participants to have the ability to adjust bids. A rebidding process or "multiple gate closures" should address most of the issues of concern.

Discussion Point 18

The Authority invites comment on the appropriateness of the price caps and bidding rules in the Wholesale Electricity Market.

Price caps should not be required if all market participants are bidding at SRMC.

Verve Energy notes and supports the discussion that will arise in the road map process.

Discussion Point 19

The Authority invites comment on the appropriateness of the Reserve Capacity Mechanism for determining the Reserve Capacity Price. In particular:

- **is there any evidence demonstrating that overall pricing signals provided in the Wholesale Electricity Market (for capacity and energy) are encouraging an inappropriate mix of plant; and**
- **are there alternative mechanisms, or changes to the Reserve Capacity Mechanism, that could better achieve the Market Objective of promoting the economically efficient, safe and reliable production and supply of electricity and electricity related services in the South West Interconnected System.**

While there is no evidence that the Reserve Capacity Mechanism ('RCM') is promoting the wrong mix of plant to date, there is some concern that SRMC bidding, price caps and RCM payments may discourage entry of mid-merit plant in the future, leading to higher overall energy costs. There is evidence of an overbuild of baseload generation, however.

The current RCM is reasonable and there is no need for any large scale changes. Verve Energy supports the rule change amendment to bring the entry window for new facilities forward.

Discussion Point 22

The Authority invites comment on whether the Reserve Capacity refund mechanism should be included for consideration as part of the road map proposed in the Authority's 2008 review of the market.

Verve Energy supports the consideration of the Reserve Capacity refund mechanism in the prosecution of the proposed road map.