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21 July 2010

Mr Chris Brown
Acting Assistant Director Electricity Market Surveillance
Wholesale Electricity Market
Economic Regulation Authority
6th floor, Governor Stirling Tower
197 St Georges Terrace
PERTH WA 6000

Dear Chris

**System Management submission – Wholesale Electricity Market Report**

Thank you for the invitation to comment on the matters raised in the Economic Regulation Authority's discussion paper of 25 June 2010 concerning the annual review of the Wholesale Electricity Market.

System Management has prepared a detailed submission in response, which is appended to this letter.

System Management is a ringfenced entity within Western Power, with particular functions conferred under the Wholesale Electricity Market Rules.

System Management's principal function in the Wholesale Electricity Market is the maintenance of power system security and reliability. Consequently, the comments on the matters raised in the discussion paper are from this perspective.

System Management is happy to further discuss any aspect of our submission with the ERA. Please direct any queries in relation to this submission to Neil Hay on 9427 5744.

Yours sincerely

**Ken Brown**
**General Manager, System Management**

DM#:7353681v1

# System Management

## Comments on Economic Regulation Authority's 2010 Annual Wholesale Electricity Market Report to the Minister for Energy

### Introduction

System Management is a ringfenced entity within Western Power with the functions conferred under clause 2.2 of the *Wholesale Electricity Market Amending Rules (September 2006)* (**Market Rules**).

System Management welcomes the opportunity to contribute to the review of the Western Australian Wholesale Electricity Market. System Management has structured this submission to respond to each particular point raised by the Economic Regulation Authority (**ERA**) in its discussion paper dated 25 June 2010.

### Discussion Point 1

*The Authority invites comment on any strategic, policy or high-level issues, including those raised in this Discussion Paper, that are impacting on the effectiveness of the Wholesale Electricity Market in meeting the Wholesale Market Objectives.*

System Management: System Management supports the Wholesale Electricity Market Objectives and submits that System Management has contributed to the attainment of these objectives. While there are issues with the functioning of certain aspects of the Market Rules (which will be detailed further in this submission), generally System Management believes that, on the whole, the Wholesale Electricity Market is effective in meeting these objectives.

In the 2009 review, System Management highlighted several issues and notes that progress on these issues has yet to be made. These issues were:

> One factor that may not be effective is in regards to the Dispatch Merit Order (DMO). Operations in off-peak times would seem to indicate that the current Market Rules surrounding the DMO does not support the Market Objective to *promote the economically efficient, safe and reliable production and supply of electricity and electricity related services in the South West Interconnected System (SWIS).* The dispatch order requires Verve Energy to be dispatched prior to all other facilities. This is therefore not based on price and so may be inefficient, especially for generation reduction overnight.
>
> System Management notes that this issue has not been resolved as yet, but is the subject of major discussion throughout the industry and is being reviewed by the Market Advisory Committee.
>
> Another factor that bears consideration regards the governance of the rule change process. Whilst mindful of the potential cost, System Management submits that in many jurisdictions the rule change process is not governed by

the same body that is responsible for market operation and administration. This governance regime evidently provides some benefits, and it is submitted that consideration should be given to further investigation of pursuing this model.

**Discussion Point 2**

*The Authority invites comment on the effectiveness of the Independent Market Operator, System Management and the Economic Regulation Authority.*

System Management: No comment is made.

**Discussion Point 3**

*The Authority invites comment on the impact of feed-in tariff and renewable energy rebate/buyback schemes, as they relate to the efficiency, reliability and security Objectives of the Wholesale Electricity Market.*

System Management: The residential feed-in tariff will probably result in more local generation provided at a street level. Other jurisdictions with a similar program have experienced issues with quality of supply and voltage control. Issues in one local area could result in cascading issues. It would be prudent for the situation to be monitored as a high level of take-up could result in a requirement for further network reinforcement. Before that point occurs, consideration should be given to the incentive.

**Discussion Point 4**

*The Authority invites comment on the Reserve Capacity Credit allocation to Intermittent Generators.*

System Management: Because the Reserve Capacity mechanism is linked to the security of the power system, conservatism should be exercised when allocating capacity credits to intermittent generators. Therefore, System Management would suggest averages not be used when it comes to system security

System Management's position on this issue was published to the members of the Renewable Energy Working Group on 9/06/2010 and is available at: http://www.imowa.com.au/n139.

**Discussion Point 5**

*The Authority invites comment on the existing and potential impact of intermittent generation on the Wholesale Electricity Market, including the need for cost reflectivity under the existing framework and Market Rules.*

System Management: System Management supports the need for cost reflectivity. System Management refers the ERA to comments indicating the existing and potential impact of intermittent generation on the Wholesale Electricity Market made as part of the REWG, available at http://www.imowa.com.au/n139.

**Discussion Point 6**

*The Authority invites comment on the current framework for network access and the determination of capital contributions for augmentation to the shared transmission network provided by Western Power.*

System Management: No comment is made.