

29 April 2016

Simon Middleton
Program Director – Electricity Market Review
Public Utilities Office
Albert Facey House
469 Wellington Street
Perth WA 6000

Dear Mr Middleton,

Perth Energy Submission on Energy and Ancillary Services Market Reforms Position Paper

Executive Summary

Perth Energy would like to thank the Public Utilities Office (PUO) for the opportunity to provide comment on the position paper entitled “Position Paper: Design Recommendation for Wholesale Energy and Ancillary Service Market Reforms”¹ (the Paper). Our high level position on the proposed reforms is outlined in the next few pages and responses to the specific questions that were posed in the Paper are then addressed in the remaining part of our response.

The Electricity Market Review (EMR) which is being led by a Steering Committee and supported by the PUO has the following stated objectives for the reform process:

1. Reducing costs of production and supply of electricity and electricity related services, without compromising safe and reliable supply.
2. Reducing Government exposure to energy market risks, with a particular focus on having future generation built by the private sector without Government investment, underwriting or other financial support.
3. Attracting to the electricity market private-sector participants that are of a scale and capitalisation sufficient to facilitate long-term stability and investment.

Integrated design

We draw your attention to the comments that we made in our January 2016 submission in relation to the proposed reforms to the Reserve Capacity Mechanism (RCM). In that response we highlighted the need for investors to be able to trust a set of standing Market Rules and predictable regulatory environment to operate within, especially for an infrastructure market like for power

¹ Available from

http://www.finance.wa.gov.au/cms/uploadedFiles/Public_Utility_Office/Electricity_Market_Review/Position_paper-Energy-Market-Operations-and-Processes.pdf

generation assets. Without policy and regulatory predictability the issue of sovereign risk will arise making it harder to achieve market objectives 2 and 3 above.

Regulatory predictability does not mean inflexibility. Market participants accept that the policy and regulatory framework at times needs to be modified for improvement to any market structure and operation. But wholesale changes based on a different market design with the direct outcome of causing private merchant generators to face risk of insolvency, as proposed for the RCM, are not responsible policy making and fail to adhere to express market reform objectives. While the RCM issues are being addressed separately in the EMR RCM Position Papers, as we discussed previously, the fundamental aspect of the Wholesale Electricity Market (WEM) is the complementary RCM-Energy market structure that requires integrated design changes in any reform effort.

For the same sovereign risk reason it is important that EMR introduce changes to the wholesale energy and ancillary services market with the clear view of enabling generators to earn a reasonable and sufficient return in this market to offset the significant risks that have now been introduced into the capacity market. Given the RCM and wholesale energy markets are two sides of the same WEM coin, it is necessary for all of the components of these two markets to work in complement to each other to ensure continued interest from the private sector to make any investment, not just in new peaking power generation, in the WEM.

Energy market price limits

With the proposed reforms to the RCM, Perth Energy considers the price for capacity (the Reserve Capacity Price or RCP) to become marginal and will not in future on its own be able to support investment in a peaking generator. Yet, without substantial investment in peaking and mid-merit capacity the system will be placed at risk in terms of supply reliability, as recently witnessed in South Australia, if entry of renewable capacity continues apace due to Federal and State Government subsidy policy. It will be necessary to increase substantially the price limits in the energy market to allow peaking and mid-merit generators to earn sufficient revenue to supplement its capacity revenue going forward. Because of the surge in risk in the RCM that is not accompanied by an adequately compensating rise in the RCP given the steepness and asymmetry of cap/floor design in the RCP curve, the price premium in the energy market will now have to rise sharply for the WEM to work as intended.

With the RCP able to hit zero while capped at 1.1 times Benchmark RCP during the transition period and 1.5 times BRCP under an Auction regime, the RCM reforms have effectively cancelled the capacity market in the eye of the banking community. All banks operating in the WEM have explicitly communicated to Perth Energy they can no longer provide project finance debt, the lowest cost of fund form of finance, to any of the private sector plants without a long term take-or-pay power purchase contract with Synergy or backed by taxpayer guarantee.

The RCM design changes have now caused an exodus of bank debt from the WEM, opening up a much higher risk-premium environment under other forms of financing that is facing a sharp decline in equity investor appetite for new peaking and mid-merit generation capacity, with spill over effect to other areas of economic investment in Western Australia.

Given the effective cancellation of the capacity market, energy price limits in the Balancing Market will need to be raised towards levels in the National Electricity Market (NEM) to reflect more fully

the value of lost load. This means the energy price caps should be raised to around \$10,000/MWh.

Constrained network access

The proposed reforms to the energy and ancillary services markets are also necessary to enable the introduction of the restricted network access regime to Western Power's transmission and distribution system. Perth Energy is very concerned that generators' pre-existing rights be properly protected and considered in designing and fine tuning the new arrangements. This is absolutely critical for peaking generators given their structural role in the system, that of higher marginal cost and irregularly dispatched capacity.

As the experience in South Australia and Tasmania have recently shown, peaking plants will become more and more vital to support the network as well as supply side with more entry of renewable energy capacity to replace retiring coal fired (and in the case of Tasmania, short term disruption to hydro) baseload plants. Capacity refunds must not apply to an existing generator that is unable to make its units fully available due to network constraints following the entry of new generators without the attendant necessary network augmentation to continue to ensure firm network access to existing generators.

The first and foremost requirement for the adoption of constrained access is to compensate existing generators that have had to incur substantial deep connection costs under Western Power's capital contribution policy. The two principles of equal access and user pays should see existing generators be refunded their deep connection costs and other costs not planned to be incurred by new generators under constrained access, and/or new generators pay equivalent costs to be connected. If neither is adopted then unconstrained access rights of existing generators must be protected in some form or another.

With the Australian Energy Market Operator (AEMO) now having replaced the Independent Market Operator (IMO) as the operator of the WEM, Perth Energy is pleased to see that the Paper includes proposals to utilise existing systems that the AEMO employs in the National Electricity Market (NEM), such as the National Electricity Market Dispatch Engine (NEMDE). This is likely to drive some operational efficiency and reduce some of the risks attached to the transition. As many WEM participants are unfamiliar with the market structure required for a constrained network and the tools that the AEMO will need to introduce, it will be necessary to ensure sufficient time and resources to be dedicated to training and testing of both AEMO and participant systems well ahead of a go-live date for the proposed changes.

Short Term Energy Market

Perth Energy considers the STEM to have limited usefulness for price discovery due to the single bid (no rebidding) design. The combination of off-market bilateral deals and fine tuning of positions in the Balancing Market should be sufficient for market participants. We can support retaining the STEM on a voluntary basis, where there should be no obligations on capacity providers to make all their capacity available. This obligation is already catered for within the Balancing Market.

We fully support the proposal to require facility bidding for all market participants, including and especially Synergy. This is a critical requirement for transparency and efficiency of system dispatch

and somewhat mitigation of Synergy's market power. It will establish a more level playing field for all participants. Consistency in generator treatment must include gate closures for all participants in the energy and ancillary markets.

Due to the extreme level of market concentration in the WEM as a result of the Verve-Synergy merger in 2013-14, it will be necessary to consider and review all other options for market power mitigation and the net impact on market competition from those options. This should include any requirements for bidding at short run marginal cost (SRMC) and the guiding principles to determine what is incorporated in the SRMC definition and under what circumstances, if any, should Synergy be exempt from the SRMC rule. This rule is in place principally to mitigate Synergy's market power. It is not an efficient rule for market operation. If Synergy's market power could be dealt with effectively in other ways, there might be reasons to soften or even do away with the SRMC rule.

For instance, if Synergy could internally ring-fence its Generation Business Unit into two or three portfolio generators, say GBU1, GBU2 and GBU3, then Perth Energy would be amenable to accepting such arrangement as an improvement in market structure allowing those GBUs to be exempt from the SRMC rule. This arrangement would be facilitated by the introduction of facility bidding, which would provide Synergy with accurate information on the economics of each plant within the system framework. It would make it easier for Synergy to split its portfolio with each GBU reporting separately on its financial operation.

We appreciate this proposed solution of splitting Synergy's portfolio into sub-portfolios may be outside the scope of the Paper, however, it is worth considering as part of an integrated approach to WEM reform. The three foundations of this reform are the RCM, the Energy & Ancillary Market and Synergy's market power as highlighted in EMR Phase 1. Without a Synergy restructure any effort in redesigning the WEM would have at best a sub-optimal effect.

The remaining part of this submission provides Perth Energy's views in relation to each of the specific requests for comment contained within the Paper.

Perth Energy's Responses to Specific Consultation Questions

Essential reforms, co-optimisation of energy and ancillary services markets and facility bidding

Page 22: Request for comment – submissions providing feedback on the essential reforms – the implementation of a security-constrained market design, facility bidding for Synergy and co-optimisation of competitive energy and ancillary service markets – are encouraged.

Perth Energy supports the main components of the proposed reforms to the energy and ancillary services markets, subject to energy price limits being raised substantially towards NEM levels as discussed. We see the proposed reforms as a necessary step towards rebalancing the WEM from the severe imbalance introduced by the proposed RCM changes. They are also required for the WEM to accommodate the introduction of constrained access to Western Power's network.

Perth Energy does not support the introduction of constrained access although we acknowledge the pre-disposition towards this regime being transferred from the NEM to the WEM with the AEMO

being now in charge of WEM. We understand there is expectation in this regard but we fail to pinpoint any potential improvement to efficiency in such a transfer.

The key problem with constrained access is that it could interplay with the existing distortions in the market in the form of substantial subsidies to renewable energy capacity that could end up exacerbating these distortions in dispatch. This would unwittingly damage the economic position of peaking and mid-merit capacity, which as discussed is vital to the gradual transition of the WEM from a fossil fuel based system to a renewable energy based system. Any artificial intensification of the entry of renewable capacity at the expense of energy balancing and back-up capacity would be counterproductive, risky to the system and unfair to a class of efficient plant technology, all of which is explicitly forbidden in the Market Rules and goes counter to market objectives.

As renewable plants are considered non-dispatchable, they are prioritised in the merit order of dispatch and therefore would have first access to a constrained network location. If a peaking or mid-merit plant is located in the same entry point, this plant could be unfairly or inefficiently constrained. We would then have a regime that would exacerbate the intermittency impact of renewable energy capacity.

Currently, the abnormally high Renewable Energy Certificate (REC) price has the potential to push through an inordinate amount of renewable capacity in the system. Yet, a year ago, REC price was falling to one-third the current levels. With the ebb and flow of Federal Government policy towards REC, it would not be desirable for the WEM to adopt a constrained access regime that would artificially depress the economics and dispatch of existing plants in favour of new renewable capacity. This is especially so in the context of an emission trading scheme that is likely to be raised as a prospect again in Australia, which could one day see the REC regime phased out and/or absorbed into an ETS. This could create a vacuum in future in the mid-merit and peaking capacity rank, opening up network stability and supply reliability risks.

Perth Energy recommends that prior to a transition to constrained access, a thorough investigation of the risks and return for such a regime be done in the framework of network stability and supply reliability for a system like WEM, which has no interconnection with the wider NEM.

In adopting constrained access, it would be critical to protect the rights of existing participants, especially the rights provided to generators who have paid for firm network access rights. There is a potential connection between dispatchability under constrained access and capacity certification. If constrained access unfairly discriminates the certifiability of peaking and mid-merit capacity, or results in unwarranted capacity refund obligations for existing capacity, then Perth Energy will challenge the adoption of such a regime.

Co-optimised dispatch of energy and ancillary services is supported by Perth Energy as we believe this approach is likely to lead to better and more efficient outcomes for both markets, to the ultimate benefit of consumers. It will be important to ensure that the detailed design of these markets are sufficiently flexible to ensure that all generators in the WEM (current and future) can easily participate in both energy and ancillary provision. This will allow the market to be less dependent on Synergy's facilities and be able to access the most efficient combination of generation sources to provide the overall energy and ancillary requirements of the market from time to time.

Perth Energy is a strong supporter of mandatory facility bidding for all generators. Facility bidding is necessary to allow for efficient dispatch and a transparent and economic merit order of dispatch. Perth Energy would prefer that no special arrangements apply for any generator in the market. Synergy's current special role in the balancing and ancillary services markets, including the different gate closure times and rebidding rules that apply to it, should be abolished and replaced with uniform requirements applying to all generators as soon as possible. Given the high industry concentration level it is necessary to consider formal arrangements to avoid abuse of market power (discussed further below).

Later gate closure, five-minute dispatch and ex-ante pricing

Page 22: Request for comment – the Electricity Market Review proposes later gate closure for the energy and ancillary services markets, five-minute dispatch cycle and ex-ante price determination. Submissions providing feedback on these proposed reforms, including alternative options, are encouraged.

Perth Energy supports introduction of a later gate closure and consistent time frames for Synergy and other market participants in the energy and ancillary services markets. Being able to fine tune positions closer to real time is likely to lead to more efficient outcomes both for the individual participant and for the market as whole. Ultimately, this will benefit consumers. Market participants will be able to take into account more up to date information when submitting final bids, such as changes in weather patterns affecting load, the sudden unavailability of a generating unit or developments in related markets such as in the spot market for gas.

The overall system load and the output of intermittent generators should also be possible to predict with a higher level of accuracy with later gate closure. This in turn will provide more certainty to conventional generators as to the requirement for their services. With improved certainty around requirements at the time that bids are submitted we expect efficiencies to result in benefits to most market participants and also ultimately to end use customers.

In principle, we also support the move from the current 30-minute dispatch cycle to a 5-minute dispatch cycle. This is for similar reasons to the move to a later gate closure. With shorter dispatch cycles the best combination of generation to meet the current load requirement can be solved at the 5-minute level rather than the 30-minute level and improved efficiencies will result. We consider this to be a much more significant change than a later gate closure and one which may require more effort and cost to implement. Therefore, we would like to see more analysis of the likely costs (including for both AEMO and market participants' systems) related to this reform before a decision is made to include 5-minute dispatch in the overall reform package.

Perth Energy supports the proposed move to ex-ante pricing in both the energy and ancillary services markets. In our view, the benefit of price certainty far outweighs any increased price accuracy that may be possible with ex-post pricing. Ex-ante pricing will provide more certainty for generators and encourage more active participation in the energy and ancillary services markets.

Retention of the STEM

Page 23: Request for comment – submissions providing feedback on the proposed retention of the STEM are encouraged.

Perth Energy can support retaining the STEM on a voluntary basis, provided it is not costly to the system to do so. The STEM is not efficient as it allows participants only a single bid opportunity through a blind auction to submit their requirements and/or offers. The ability for participants to schedule bilateral contracts through the market and use the balancing market for any fine tuning is sufficient for trading in the WEM. We understand STEM is used by some participants to gauge the likely direction of balancing prices a day ahead. Overall, STEM prices are only marginally higher than balancing prices, which is to be expected, although at times they do diverge and this is the information that some participants would like to analyse retrospectively to see if they could improve on short term price forecasting.

If the STEM is retained, the current requirement on capacity holders to either schedule its capacity bilaterally or through the STEM should be removed. The requirement to participate in the Balancing Market is in our view sufficient to ensure all capacity is made available to the market. Generators should also not be exposed to any capacity refund for their activities in the STEM. This should instead be solely linked to the performance against bilateral, energy and ancillary services market obligations, metered schedules and reporting of outages.

Perth Energy believes that consideration should be given to allowing bilateral contract submissions to be provided to the market after real-time events up to a pre-defined point before settlement occurs. This will facilitate further over-the-counter trading between parties including trading out of imbalances.

The use of NEMDE, a hub-and-spoke network model and single reference node

Page 28: Request for comment – submissions providing feedback on the proposal to implement market reforms using NEMDE, a hub-and-spoke network model and single reference node pricing are encouraged.

It becomes important that the AEMO uses all of its existing knowledge and related market systems to extract potential efficiencies in running the WEM. Perth Energy supports the use of pre-existing systems, processes and algorithms, such as the NEMDE dispatch algorithm where these pre-existing tools can be shown to be appropriate for the WEM.

Perth Energy does not have a preference in relation to the type of network modelling approach that is selected for the new design of the market. We would prefer a balance be struck between accuracy of modelling results and cost/complexity of implementation. Our understanding is that NEMDE is based on a hub-and-spoke approach to modelling the electricity network. It would seem cost efficient to also apply the hub-and-spoke network modelling approach for the WEM to ensure a local version of NEMDE can be implemented with least associated costs.

Perth Energy supports retaining a single reference node for our market. We believe the size of the WEM would make multiple reference node pricing exceedingly complex. It may also be

particularly disadvantageous for competition in some regions such as Geraldton and Kalgoorlie. Changes would be required across most operational and settlement systems and also to bilateral contracts settled outside of the market. We do not believe the additional costs associated with these changes are likely to result in benefits outweighing them.

Automatic exemption criteria for generators

Page 33: Request for comment – submissions are encouraged from stakeholders regarding whether, and if so how, automatic exemption criteria should be defined for the registration of generating units connected to the South West Interconnected System.

Perth Energy considers it critical that pre-existing rights of current generators be preserved. We would expect that a generator that is currently exempt from full participation in the market would continue to enjoy this status or alternatively be fully compensated for losing this right if a change is introduced. Given the WEM does not seem to have prevalent locational constraint at the moment, as a result of deep connection payments by existing generators at the time of their own access works, preservation of their existing rights is absolutely justifiable.

The application of new criteria should only apply to new generators if a constrained access regime is adopted.

Cost allocation method for system restart

Page 45: Request for comment – submissions on whether the Wholesale Electricity Market should adopt the National Electricity Market's cost allocation method for system restart ancillary services are encouraged.

Perth Energy supports the proposal to allocate the costs of the system restart service to all generators and loads in proportion to the energy they take or generate. This is in contrast to the current allocation method which is to recover this cost from loads only.

This change would contribute further to better alignment with the NEM. Perth Energy also considers it reasonable that loads and generators share equally in paying for this service as they all benefit from a speedy recovery of the system following a black start event.

Change of reference node

Page 49: Request for comment – submissions are encouraged on the likely effects on stakeholders of a change to the reference node for the South West Interconnected System from the Muja 330 kV busbar to a network location in the Perth metropolitan region (such as Southern Terminal).

Perth Energy understands that the main reasons provided for changing the reference node for the South West Interconnected System (SWIS) away from Muja towards a location closer to the major load centre in Perth relate to how the selection of the reference node may impact on the calculations performed in NEMDE and therefore ultimately in dispatch outcomes. The relativity of marginal loss factors should not in theory be impacted.

Perth Energy would like to see more detailed analysis of the likely impact of a change in reference node for the SWIS before a decision is made. In particular, it would be useful to analyse theoretical forecast dispatch for the SWIS using recent actual data with the reference node set to Muja, Southern Terminal and perhaps a few other key locations on the network to get a sense of the sensitivity of dispatch outcomes to the selection of reference node. Without performing this analysis we could end up swapping one set of arbitrary outcomes for another.

Gate closure and generator rebidding

Page 53: Request for comment – submissions are encouraged from stakeholders on the circumstances, if any, under which a formal gate closure limit should apply to generator rebids.

Perth Energy considers a move to a 30-minute gate closure to be a sensible first step to introduce proposed changes to our market. This will be a positive step in the right direction and is likely to deliver most of the benefits associated with the ability to rebid close to real time. Once this new way of operation has been in place for some time and issues relating to market power mitigation are better understood it may be possible to consider relaxing the gate closure cut-off time further.

We consider there could be significant risk attempting to move all the way to near real-time rebidding at the same time as introducing what is very significant reform to all parts of our market. The time frame for WEM reform in a large number of technical areas is already challenging. Rushing through further changes would open up unnecessary risks.

Non-STEM settlement timeline

Page 60: Request for comment – submissions from stakeholders are encouraged on how, and whether, the Non-STEM settlement timelines should be amended.

Perth Energy does not support a move to the weekly NEM schedule for settlements at this stage. However, if settlement statements can be produced earlier at little cost we would support this change.

The most significant issue impacting on the timelines of the settlement process and the accuracy of the results is the timely availability of metering data. Given the significant changes that may be required to metering over the next decade, and the earmarked full retail contestability in 2018, we consider it prudent to postpone material changes to the WEM settlement process to avoid incurring substantial IT development costs for a system that may require further significant change within the next few years.

Treatment of loss residues

Page 62: Request for comment – submissions from stakeholders are encouraged on how loss residues collected by the Australian Energy Market Operator, due to the use of static marginal transmission loss factors and settlement by difference, should be allocated back to consumers.

Perth Energy supports the proposed change of allocating loss residues to become a specific allocation to consumers rather than being obscured as part of the wholesale meter owned by Synergy. In keeping with the principle of harmonising arrangements with the NEM where appropriate, we also support the mechanism of allocating these loss residues to the network service

provider. The loss residues can then be used to offset network changes and thereby directly benefit consumers.

We note that profiled customers would be using both the transmission and distribution part of the network. At the same time, no transmission connected customer would also be a profiled customer. It will therefore be more cost reflective to allocate the loss residue to the distribution rather than transmission part of Western Power's network business. We understand that the allocation in the NEM is to transmission network service providers and therefore harmonisation with NEM principles would suffer if loss residues were allocated at the distribution level in the WEM. But this is an area worth being inconsistent between the two markets.

Issues relating to bidding behaviour and SRMC

Page 69: Request for comment – the views of stakeholders are encouraged on:

- *what matters should be addressed in the proposed guidelines for interpretation of short run marginal cost bidding obligations under the Wholesale Electricity Market Rules;*
- *the types of costs that should be permitted for inclusion in prices offered into the STEM and the new real-time energy market;*
- *what matters specific to generators with larger portfolios need to be considered; and*
- *how and whether the input assumptions should vary in respect of offers made into the two energy markets.*

For the balancing and ancillary services markets we believe that specific market power mitigation measures be required to be implemented. The current requirement to bid at SRMC for participants with market power is difficult to interpret and correctly apply for both regulators and participants. Clarification of the components of SRMC is required. However, we see disadvantages with having a completely prescriptive SRMC framework.

We would prefer to soften or do away with the SRMC rule if Synergy could undertake internal ring-fencing to split up its generation portfolio into 2 or preferably 3 GBUs with their own financial reporting to encourage efficient bidding for dispatch under facility bidding as discussed above.

Early implementation of reforms

Page 74: Request for comment – the views of stakeholders are encouraged on the feasibility, costs and benefits of early implementation of any of the proposed reforms.

The timelines outlined in the Paper for implementation are tight given the nature of the proposed reforms and the requirement for system and process changes for the AEMO and all participants. In addition, testing and training for these new systems and processes will also be required. We believe it will be difficult to consider any early implementation of any parts of the reforms until all detail has been decided and therefore the forward work programme for all parties in relation to the required changes can be determined. At that point in time further consultation with all involved parties should be conducted to determine the feasibility of early implementation of parts of the reforms.

But the exception to this caution would be the energy price limits. We consider it important that such adjustment in the Balancing Market be confirmed as soon as possible to be considered by the finance community in its assessment of the merit of reform. The RCM review has effectively

terminated the workability of this side of WEM, so any offsetting benefits that could be brought to the Balancing Market should be announced as early as possible.

Implementation costs

Page 75: Request for comment – submissions are encouraged that detail the costs that must be incurred by market participants as a result of the proposed changes.

Perth Energy is not in a position to comment on its own costs to implement the proposed changes at this stage. However, we anticipate the costs will be significant and may outweigh any benefit to us, particularly with the introduction of constrained access. Once more details for the proposed reforms have been agreed we will be in a better position to estimate the impact.

Synergy is likely to be the party with the most significant cost impact related to implementation of these proposed reforms. It will be important to establish a reasonably accurate estimate of Synergy's costs and costs for other participants prior to making final decisions on significant reform options. Facility bidding is definitely worthy of the higher cost estimates to Synergy while introduction to constrained access will likely be not.

Again, these comments exclude the energy price limits, which would cost little to participants or AEMO to implement, but which would assist integrating the changes in the energy market with the capacity market as soon as possible.

Other Issues

Perth Energy would like to draw your attention to a further two points of detail not covered by the specific requests for comment in the Paper.

First, on page 63 of the Paper the impact of changes to the treatment of non-interval meters on the calculation of the Individual Reserve Capacity Requirement (IRCR) is mentioned briefly. A general discussion regarding IRCR within the reformed market has been missing throughout the EMR process. Given the importance of the IRCR allocation for retailers and customers we recommend that a full review of the methodology be contemplated potentially to coincide with the introduction of the reformed RCM in October 2017.

Second, section 6.1 of the Paper concerning the energy price limits states that peaking generation units are expected to recover their fixed costs through capacity payments rather than through energy market price spikes. We cannot stress enough that with the proposed changes to the RCM this statement is false. The RCP can no longer be predicted with any real sense of a band and the extreme volatility introduced will no longer reflect fixed costs but rather the marginal value of capacity to the market. The RCM is now unworkable, especially with the confirmed introduction of an Auction regime in the 2012-22 cycle WITHOUT ANY WORK HAVING BEEN DONE OR SUBSTANTIATED ON THE THEORETICAL BASIS OR RULES GOVERNING SUCH AN AUCTION REGIME. Putting the cart in front of the horse has destabilised the capacity market beyond short term repairs.

The capacity, energy and ancillary services markets cannot be considered in isolation. The RCM changes have been pushed through with an absolute lack of consideration of what the changes

would do to private merchant participation, existing and potential. It is a self-defeating exercise as far as the express market objectives are concerned.

What has salvaged the drastically negative impact of the proposed RCM design changes are 1) the more efficient treatment of Demand Side Management, and 2) the policy announcement by the Minister of 380MW of Synergy plant closure by October 2018. To the extent that PUO and EMR Steering Committee have played a role in advising the Minister to make such a policy decision, Perth Energy applauds them for that. But this policy move is not part of the proposed RCM Position Paper so the latter can only be judged on its merit.

As the RCP will represent marginal value under the proposed RCM changes, the energy price limits must provide peaking units the ability to recover fixed costs through much higher prices, to the level of VOLL. The methodology for determining energy price limits should therefore be examined to ensure that the WEM can continue to maintain viability of private sector investment without requiring taxpayer support.

We would like to once again thank you for the opportunity to provide our response to this consultation. Please call Geoff Gaston or myself on 08 9420 0300 to discuss our response in further detail.

Yours sincerely



**KY CAO
MANAGING DIRECTOR**