
Wholesale Electricity Market Pre Market Rule Change Discussion Paper

Submitted by

Name:	Ignatius Chin and/or Adam McHugh
Phone:	+61 8 9213 1900
Fax:	+61 8 9213 1999
Email:	ignatius.chin@era.wa.gov.au , adam.mchugh@era.wa.gov.au
Organisation:	<i>Economic Regulation Authority</i>
Address:	Level 6 / 197 St. Georges Terrace, PERTH WA 6000
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Urgency:	2
Change Proposal title:	Release of STEM Submission Information
Market Rule(s) affected:	10.5.1.(i)ii

Introduction

This Pre Market Rule Change Discussion Paper can be posted, faxed or emailed to:

Independent Market Operator

Attn: Dora Guzeleva, Manager Market Administration

PO Box 7096

Cloisters Square, Perth, WA 6850

Fax: (08) 9254 4399

Email: marketadmin@imowa.com.au

The discussion paper should explain how it will enable the Market Rules to better contribute to the achievement of the wholesale electricity market objectives. The objectives of the market are:

- (a) to promote the economically efficient, safe and reliable production and supply of electricity and electricity related services in the South West interconnected system;
- (b) to encourage competition among generators and retailers in the South West interconnected system, including by facilitating efficient entry of new competitors;
- (c) to avoid discrimination in that market against particular energy options and technologies, including sustainable energy options and technologies such as those that make use of renewable resources or that reduce overall greenhouse gas emissions;
- (d) to minimise the long-term cost of electricity supplied to customers from the South West interconnected system; and
- (e) to encourage the taking of measures to manage the amount of electricity used and when it is used.

Details of the proposed Market Rule Change

1) Describe the concern with the existing Market Rules that is to be addressed by the proposed Market Rule change:

The Economic Regulation Authority (the **Authority**) considers the current timing of STEM Bids and Offers information released to the Public under clause 10.5.1 of the Market Rules to be contrary to the Wholesale Market Objectives outlined under clause 1.2.1.

A fundamental economic principle that arises from the competitive market model, as the economic benchmark used to inform the removal of efficiency impediments, is that market efficiency is compromised by market participants' inability to access, or respond to, market information. In this context, the timing of when information is released is just as critical as its content.

Under clause 10.5.1.(i)ii. of the Market Rules, STEM Bids and Offers information for each Trading Interval is not to be released on the Market Web Site until up to two months after the completion of the Trading Day.

The Authority considers the lack of timely information release a hindrance to the market's efficient evolution. In the longer run, lagged access to information is a barrier to entry for potential new market participants due to the increased risk that results from the uncertainty surrounding current market conditions.

Clause 6.6.3 of the Market Rules requires a market generator's Portfolio Supply Curve to reflect its short run marginal cost. Therefore a market generator's trading decision should not be influenced by STEM information because short run marginal cost should reflect solely the cost of running the generation plants and be independent of the behaviour of other market generators. Nevertheless, the Authority considers the short run marginal cost provision to be a temporary measure in the transition to a more competitive market. This transition will be better facilitated if current information is provided to market participants as well as to potential entrants. The evolution of the market to one that is actually competitive, as opposed to one that replicates the competitive outcome, will be smoother if the market functions in the manner required for true competition to take place prior to the transition being made.

2) Explain what the degree of urgency is for the Rule Change and why:

or

If a Fast Track rule change process is proposed, provide reasons as to why urgent change is required:

While the Authority considers this Rule Change to be somewhat urgent, it would like to consult Market Participants on the issues that may arise as a result of the proposed amendment.

The Authority recommends that the proposed Rule Change be discussed at the next Market Advisory Committee meeting.

3) Provide potential specific changes to particular Rules and how the proposed Rule Change would address the concern identified at (1):

In the interest of promoting the Wholesale Market Objectives through the release of STEM submission information, it is proposed to amend clause 10.5.1.(i)ii from:

For each Trading Interval in each completed Trading Week during the 12 calendar months ending on the last day of the calendar month two months prior to the current calendar month:

1. *the STEM Offers by Market Participant;*
2. *the STEM Bids by Market Participant;*
3. *the quantity brought or sold in the STEM by Market Participant; and*
4. *the Fuel Declaration, Availability Declaration and, if applicable, Ancillary Service Declaration made by the Market Participant*

to (amendment underlined):

For each Trading Interval in each completed Trading Day during the 12 calendar months by 9:00AM of the Trading Day:

1. *the STEM Offers by Market Participant;*
2. *the STEM Bids by Market Participant;*
3. *the quantity brought or sold in the STEM by Market Participant; and*
4. *the Fuel Declaration, Availability Declaration and, if applicable, Ancillary Service Declaration made by the Market Participant*

4) Describe how the proposed Market Rule change would allow the Market Rules to better address the Wholesale Market Objectives:

The proposed Market Rule change would allow the Market Rules to better address the Wholesale Market Objectives by increasing information flows that result in a more economically efficient pattern of electricity generation and consumption, especially when a fully competitive market is realised:

- Generation will be more readily sourced at the lowest obtainable short run marginal cost. With readily observable Bids and Offers in each time period, generators will, with full knowledge of available price-quantity relationships, be better placed to choose between meeting their contracted supply by generating themselves, or to offset their contracted supply by purchasing electricity from cheaper marginal generators in the market.
- Generation will be more readily sourced at the lowest obtainable medium to short run average cost. With improved information flows, market prices will provide an up to date

price history and thus provide continuous signals as to when it is economically efficient to take generating units offline for maintenance, or alternatively, when to incur start up costs.

- Efficient prices will enhance generators' ability to settle on their capital expenditure and maintenance programs at the lowest attainable long run average cost.
 - Demand will be more price responsive. Wholesale consumers will be better able to shift demand away from high price periods in direct response to actual prices, rather than assume prices based on lagged information. This will in turn reduce peak loads and thus reduce capacity requirement in the long run and expenditure on high cost fuels in the short run.
 - Barriers to entry faced by independent generators, including renewable generators, will be reduced. A more transparent wholesale market will reduce the risk that results from uncertainty over current market conditions. Prospective market entrants will be better placed to make rational commercial decisions when they can base them on up to date market information. This will promote higher competition in generation in the longer run.
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5) Outline identifiable costs and benefits of the change:

The cost to implement this Rule Change is minimal where the IMO may need to introduce a minor adjustment to the current STEM information release process.

The benefit of this Rule Change is substantial where the proposed change will produce a more competitive outcomes and hence better address the Wholesale Market Objectives.
