Market Advisory Committee

Meeting 10 October 07

Discussion Paper

Reserve Capacity Pricing

Perth Energy

The attached Office of Energy circular provides the background to the RCP issue. To prevent potentially large capacity surpluses the OoE implemented just prior to WEM start a change to Rule 4.29.1 that it considered temporary.

While this Rule change has strong logic behind it, the OoE made clear that MAC should review the change expeditiously following market start.

The focus of the review of this Rule should be on finding a market based approach to pricing Reserve Capacity. Excess capacity has built up in the last couple of years and is continuing to build up into the 2009-10 Capacity year. Whether this is indicative of the lumpy nature of capacity investment or sustained capacity surpluses is not yet clear, but it is imperative that the Rules ensure the latter scenario do not develop.

In the current WEM context, sustained capacity surpluses mean:

- unnecessary imposts on consumers
- higher than otherwise TDL ratio that discriminates against independent retailers as this artificially raises the cost of customer churn from Synergy tariffs
- exacerbating the unfair advantage that Synergy has in the current Vesting Contract where Synergy is shielded from the impact of excess Reserve Capacity through net-back.

These factors are having a detrimental effect on WEM and preventing retail competition from developing fully.

We note that the IMO is setting up a working group to review the approach to determining the Non-TDL ratio. This issue is related to the Reserve Capacity Pricing issue and we welcome the move.

Perth Energy proposes a working group also be set up to review Reserve Capacity Pricing, using the OoE circular as a starting point.