

To Ryan Buckland, Acil Allen
Subject Review of the Market Advisory Committee
Date 22 May 2024

Good Afternoon

Thank you for the opportunity to provide input to the review of the Market Advisory Committee (MAC) both in person and through this submission. Perth Energy holds a significant place in both the electricity retail and generation markets. As the market develops, we are actively looking to increase our presence with significant potential investments to support an increasing customer base. Being a key market participant, we have supported the work of both the MAC and its working groups and, where appropriate, will continue to do so.

It is an opportune time to review the functions of the MAC in light of the changes that are taking place within the energy market and its administration. Several significant changes stand out.

Changes to the source of energy within the market

The closure of the state-owned coal fired power stations will lead to a significant change in the balance of electricity supply. The Government has announced that Synergy will develop a combination of renewable energy generation systems firmed by major battery electricity storage systems. These will provide a replacement in respect to MW capacity but do not appear to provide full replacement for Synergy's MWh energy generation capacity.

This change will put a much larger emphasis on the role of private developers to meet existing system demand. Government has also indicated that it expects private generators and retailers to supply much of the additional electricity required by industry as operations are electrified. For this change to succeed, the energy market structure and environment will need to encourage and be supportive of private investors taking on this role.

Changes to the Market Rules

Elements of the Technical Rules, the Metering Code, the Network Access Code and the Network Quality and Reliability of Supply Code are being rolled into the Market Rules. This will add a range of new technical issues thereby changing the rule assessment role of the MAC.

Changes to the generation mix and customer roles

The energy industry is transitioning to a system dominated by plant with intermittent output, and essentially zero marginal operating cost, supported by storage and other low utilisation firming plant. At the same time, the role of customers is also changing with distributed solar generation now being the largest generator on the system and many industrial and commercial customers considering self-generation.

This will be a dynamic process with unforeseen issues arising and targets changing. Adequate mechanisms must be in place for issues to be perceived, understood and resolved promptly. This is an area where the broad market representation of the MAC, along with its depth of technical and operational experience, can make an effective contribution.

The purpose of the MAC

Q1. Do you believe there is a current clear 'reason for being' of the MAC?

WEM Rule 2.3.1 potentially provides a very broad role for the MAC but as noted, its activities are generally reactive. There is considerable experience and skill within the MAC membership and the entities which they represent. A clear "mission statement" would help encourage this knowledge to be applied to broader market development issues.

Q2. What do you consider the overarching purpose of the MAC?

The MAC should be a mechanism through which the experience, knowledge and expertise of market participants, and other stakeholders, can be focussed to addressing medium term market issues and support achievement of the State Electricity Objective (SEO).

Q3. Do you believe there is a need to define an overarching purpose for the MAC? Why or why not?

Yes. It is clear from the consultant's survey responses, and the limited role that MAC plays compared to the range of functions set out in the Market Rules, that the purpose needs to be clarified.

Q4. If so, what are some of the guiding principles for developing an overarching purpose.

One step would be to clarify the position within the rule change and market planning processes that MAC is expected to hold. Is it to be an initiator of ideas and potential solutions or just a reviewer of ideas brought forward by others? The potential benefit being provided by the time, capability and knowledge of the membership should be maximised.

MAC roles and responsibilities

The scope of the MAC, set out in market rule 2.3.1, includes a strategic role and the consultant has suggested that a strategic function be formally undertaken. However, AEMO has very recently announced that it is establishing a Strategic Energy Forum comprised of senior energy executives from a broad range of entities. This would appear to be the appropriate group to undertake consideration of the long-term future requirements of the energy system.

Given this, Perth Energy suggests that the role of the MAC should be more tactical, focusing on short to medium term issues, and technical, focusing on market rules.

Activities should include:

- Identifying actions to support, or blockages that may hinder, the long-term market development strategy;

- Determining pathways or market rules that will enable longer-term strategy to be accomplished;
- Supporting changes to market rules to address short or medium-term market objectives;
- Ensuring that proposed rule changes are practical and that all consequences are identified and addressed;
- Identifying and resolving shorter term operating issues; and
- Documenting and detailing emerging strategic issues that should be referred to the Strategic Energy Forum.

Working through these issues, including oversight of working groups where necessary, will provide MAC with a significant workload. For MAC to also undertake the longer-term strategy development role is beyond the level of commitment that the survey indicates people can make.

Q1. Do you believe that the unstated roles (transparency, industry knowledge) of the MAC should be explicit? Why or why not?

The transparency and “corporate memory” roles could be emphasised more to ensure that market participants make use these factors. The “training” function needs to be considered more carefully so that working groups are not full of “learners”. It is a valuable function that Perth Energy has used from time to time.

Q2. Do you believe that the MAC should have an explicitly proactive and strategic role within the WEM? Why or why not.

The new AEMO driven strategy group will, presumably, take on the longer-term conceptual development role for the WEM. The MAC, being a regular, formal mechanism through which market participants can provide ideas, express concerns and suggest improvements through to the market, can support this work. It is an excellent vehicle where industry’s ideas and thoughts, some of which may be controversial, can be examined by the whole market in an unbiased format.

MAC’s focus here should be to assist development of proposals to achieve longer term objectives developed by the strategy group and Government. Perth Energy suggests that MAC members should be encouraged to be proactive and bring forward ideas for how these desired developments can be achieved. This could include proving papers or presentations on specific issues.

Q3. Do you believe that removing the need for the MAC to endeavour to reach a consensus will improve or decrease the quality of advice from the MAC? Why would this be the case?

The need to strive for consensus is good as it encourages participants with differing opinions to work to achieve a common outcome. It is too easy for one party to lock into their opinion and refuse to make any compromise. The minutes will adequately provide all points of view, so all opinions are available to the Co-ordinator.

MAC Membership

Q1. Do you consider that changes to the composition of the MAC are required? Why or why not? Please consider the introduction of the SEO, the reform process, and any other matters that may be relevant.

The Consultation paper notes that some stakeholders have suggested that the current composition of the MAC is not able to provide balanced advice, particularly with the introduction of the new SEO, given the dominance of generators and gen-tailers. Perth Energy challenges this claim noting that MAC has only two generators plus Synergy plus one gen-tailer, Perth Energy, who holds a retailer representative position. On the other hand, MAC has two small customer representatives plus two contestable customers, three private energy retailers and Synergy.

Perth Energy suggests that the appearance of generator-dominance arises from two main issues:

- The immediate issue facing the energy system is encouraging investment in sufficient generation to cover closure of coal-fired plant as well as industry electrification, a possible significant increase in electric vehicles and general load growth; and
- Concern from some potential investors that current market signals are not encouraging firming generation as witnessed by the very limited success of the reserve capacity mechanism over the past decade.

In these circumstances, it is unsurprising that generators have sought to put their points across strongly and that retailers have supported them to ensure that their customers do not face supply shortages.

There does appear to be a profound disagreement within MAC as to whether measures currently being proposed will actually encourage sufficient new generation investment or not. The main question here is whether investors, and finance providers, consider that potential returns exceed the perceived risk.

Perth Energy suggests that there is a strong case for MAC to include a representative from a bank or investment fund who can provide independent advice on the criteria that are critical to finance providers. We consider that such financial participation would be of significant value during this period where new private investment is so important. This participant should be an actual financier, not a general consultant.

Q2. If the composition of the MAC should be changed, are any of the above proposals appropriate? Why or why not?

The MAC needs to have representatives who have a broad understanding of the market because so many aspects interact. Representatives need to be able to hear others' points of view, or concerns, and be able to balance these to develop the best outcome for the market.

With the present stage of the transition largely settled we need to be considering operational factors such as, for example, how the market will actually operate when it is dominated by zero marginal cost plant. The emphasis may need to move towards having adequate energy generation

plant, rather than peak capacity. We may also need to consider the interactions between wind, solar and storage in more detail to assess whether the market should target some defined balance between these rather than just treating all MW the same.

Given these requirements, and if the role of the MAC is elevated by adding a clear proactive function, it may be best to have the Minister make appointments directly.

Q3. Considering the draft recommendations, how should the three limbs be balanced? Is explicit alignment with the SEO in terms of membership appropriate? Is the suggested representation under each limb appropriate? Why and why not?

Q4. Should compulsory class membership be retained? Why or why not? Are there any advantages or disadvantages to this?

We do not see that the new SEO will change the required MAC make-up. How to classify the various membership requirements is not always obvious because market participants have multiple functions and so could fall into more than one limb. The paper suggests that energy storage be assigned to the *environmental* limb but Perth Energy suggests that its function makes it part of the *quality, safety, security and reliability of supply* limb. Similarly, we suggest that DER aggregators are part of the *price* limb rather than *environmental*.

MAC Operations

Q1. Do you consider there to be any issues with the current Working Group processes? Can you think of any examples of this?

Q2. What do you think is the role of the Working Groups versus the role of the MAC? Is there a need to make this role more distinct?

Q3. Do you think there needs to be a clearer reporting line between the MAC and the Working Groups? How could this work.

Perth Energy notes that one issue raised concerning the MAC, and its Working Groups, is that matters are brought forward by EPWA, who also contract the required consultants, provide the working group chair and bring their finalised report to MAC. This can make it seem as though working group and MAC members do not have much real input. It can also end up with MAC going back over the working group discussions.

One strength of MAC, compared to the working groups, is that it runs with an independent chair rather than a chair who is bringing forward a largely pre-prepared position. This allows an EPWA representative to argue their point as “just another” MAC member rather than as chair. Having independent chairs for the Working Groups would mirror this superior arrangement. Perhaps a practical approach to achieve this, rather than recruiting a genuinely independent chair, would be for EPWA to provide the chair from a different team to the EPWA person presenting the matter.

Another major factor is that video conferencing is a poor tool for undertaking an effective Working Group or MAC discussion compared to meeting in person. MAC has been meeting in person for every second meeting which is far more effective. Perth Energy strongly suggests that Working

Group meetings should be in person unless there are valid compelling reasons for that meeting to be online.

Reports are brought from Working Groups every meeting. This takes much time and opens up the chance for more detailed discussion. Perhaps a better route would be for final reports to be brought to MAC, along with information of differing opinions, such that MAC is excluded from the blow-by-blow process. This would allow more time to review strategic matters and MAC would then be much more of an advisory committee.

As noted above, some of this disagreement is due to differing perceptions as to how the market is working. Perth Energy's position is that the RCM has not brought on new capacity for many years but this will be challenged by those who point to significant investment in renewables and storage.

Should you have any questions please do not hesitate to contact me at p.peake@perthenergy.com.au or on 0437 209 972. This submission may be made public.

Kind regards

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I am based in the Perth Office and work Tuesday, Wednesday and Thursday