

“Major Progress On Reform,” Says Minister.

Major progress on electricity reform implementation has occurred over the last three months with the legal, institutional and administrative framework for the new market arrangements now in place.

The key milestones have been:

- Proclamation of the **Electricity Legislation Amendment Act 2004**, which was approved by the Western Australian Parliament in September 2004, together with most remaining sections of the **Electricity Industry Act 2004**.
- Gazettal of the **Market Rules** for the establishment of the wholesale market in the South West Interconnected System (SWIS).
- Finalisation and gazettal of the **Electricity Network Access Code** to govern third party access to electricity networks within the State.
- Establishment of an **Independent Market Operator** (IMO) to administer the wholesale market.
- Launching of an **Expression of Interest** for new generation capacity to be available for the 2007/08 peak.

- Ongoing development of other **Codes** to support the market and the January 2005 reduction in the contestability threshold, including a Customer Code, Metering Code and a Customer Transfer Code.

Energy Minister, Eric Ripper said that as a result of these reforms traditional barriers to competition and private sector investment in the industry were now largely removed.

“In the relatively short space of just over three years we have overhauled the electricity industry framework in this State,” the Minister said. “We have moved from a closed shop monopoly to one which promotes a competitive market environment with private sector investment and downward pressure on electricity prices,” Mr Ripper said.

“The major outstanding issue is the division of Western Power into four public enterprises, which remains Government policy. The issue will be revisited in 2005.”

“The establishment of the Market Rules and the Access Code are two major milestones. I would like to congratulate the industry for its commitment and participation in the comprehensive processes to develop these instruments.”

Coordinator of Energy, Anne Nolan said that the Office will now be working hard to achieve a start to the market in 2006.

Independent Market Operator

The Independent Market Operator (IMO) is a Government owned entity established to oversee market operations as well as run a Reserve Capacity Mechanism process. The new entity was legally established on 1 December 2004, but will not be fully operational until early in the New Year.

The full functions of the IMO are prescribed in the Market Rules and include:

- Forecasting of longer term demand, supply and generating plant requirements.
- Operation of the Wholesale Electricity Market.
- Administration of the Market Rules including overseeing of rule changes and monitoring of market participants' compliance with the Rules.

The IMO has been established under the *Electricity Industry (Independent Market Operator) Regulations 2004*. These regulations provide for the conferral of functions and powers on the IMO and also specify its governance arrangements.

The IMO is an independent entity. The Board of Directors is the governing body of the IMO, with authority to perform the functions, determine the policies and control the affairs of the IMO. The Board of Directors will comprise up to three members.

The IMO has established a website. Further information about this entity can be obtained from www.imowa.com.au

Market Rules and an Independent Market Operator for Western Australia

The making of the Market Rules and the establishment of an independent body (the Independent Market Operator) to operate and oversee the wholesale electricity market is a major step towards achieving a competitive electricity market for the South West Interconnected System (SWIS).

The Rules were approved by the Minister in October 2004 and will come into effect on a staged basis up to the planned market start in mid 2006.

The Rules are a result of three-years of consultation with industry and other stakeholders. Development of the Rules was the responsibility of a Market Rules Development Group, involving key industry representatives and chaired by the Office of Energy. The Rules were also supported by the Electricity Industry Reference Group, which consists of industry leaders and chaired by David Agostini.

The Rules give effect to the wholesale market design for the SWIS, which was endorsed by the Minister earlier this year. The design is based on the framework developed by the Electricity Reform Task Force with some amendments to account for Western Power remaining vertically integrated.

The Rules cover such matters as market governance; the role of the Independent Market Operator (IMO) and System Management; operation of a Reserve Capacity Mechanism and

a short-term energy market; system security and reliability; processes relating to dispatch, metering, balancing and settlement; dispute resolution; and market monitoring and rules compliance.

Under the Rules, the IMO will have responsibility for market operation and administration. The IMO will also perform long term generation adequacy planning and will undertake capacity auctions through the Reserve Capacity Mechanism to procure capacity needed to ensure peak demand can be met.

System Management is a ring fenced body within the Networks division of Western Power and will effectively be the System Operator. It will operate the power system in real time to maintain security and reliability.

As the market will not start until 2006, the Market Rules will be implemented on a staged basis.

Executive Director of the Reform Implementation Unit, Steve Edwell said that the next phase of reform would centre on the procurement and commissioning of IT systems to support the market.

The Market Rules are available on the Office of Energy's website www.energy.wa.gov.au. Also available are two documents summarising the market design.

Reserve Generation Capacity – An Expression of Interest

To ensure the timely provision of generation capacity, the electricity market for the SWIS is to have a separate Reserve Capacity Mechanism with the development of load forecasts and estimations of plant requirements being undertaken centrally, for the entire market. In the event of a projected future shortfall in capacity, the IMO will undertake a competitive procurement process. (See article on the IMO for further information).

Based on current assessments up to 420MW of new capacity will be required to meet anticipated peak load in 2007-08. It is anticipated that the IMO will conduct an auction in mid 2005 to procure this new capacity for commissioning by October 2007.

As a precursor to this auction, the Office of Energy sought Expressions of Interest (EOI) to enable parties to register a non-binding interest in participating in the Reserve Capacity Mechanism process next year.

The EOI was launched in October and closed on 10 December 2004. The Minister will announce the outcome from the EOI process by 23 December 2004.

A public forum about the EOI process and the Reserve Capacity Mechanism was held in October with over 50 attendees from around Australia and overseas.

In addressing the forum, the Coordinator of Energy, Anne Nolan said that the EOI and next year's capacity auction presented a major opportunity for the private sector to participate in the development of new generation capacity in the SWIS and contribute to the establishment of the competitive market.

The auction process will encourage proponents to offer a range of projects including those already under consideration, enhancements of existing facilities as well as new proposals. Proponents may offer different types of generating plant or demand side management proposals with the proviso that they must be ready for service by late 2007.

The Minister announced that he was keen to see submissions that were innovative and efficient. As well as new generation capacity, the Government is also keen to encourage demand management solutions.



Customer Service Code

Public consultation on a draft Customer Service Code has been completed with ten submissions received.

The draft Customer Code of Conduct to Supply Electricity to Small Use Customers is aimed at strengthening safeguards for Western Australian residential and small business electricity customers. The draft Code regulates and controls the conduct of retailers, distributors and electricity marketing agents.

The Code is aimed at protecting the interests of customers who generally have little or no market power. For this reason, the Code only applies to customers who consume no more than 160MWh of electricity per annum. Matters addressed under the Code include electricity marketing, billing, connection, payment difficulties and financial hardship, disconnection, reconnection, pre-payment meters in remote communities, information and communication, customer service charters, dispute resolution and record keeping.

"The Code is the result of substantial consultation with community groups, Government agencies and industry dating back to earlier this year," according to ERIU Executive Director, Mr Steve Edwell.

"In addition, consultation has occurred with other States to ensure the Western Australian Code adopts best practice".

He said the reforms were needed because at present the supply of electricity was not subject to any customer service standards that have either been mandated or approved by Government or an independent Regulator.

"This draft Code is all about customer service. It prescribes what behaviour is acceptable and what is not in regard to the supply of electricity by retailers, distributors and marketers."

"It is a vast improvement on what presently exists. Western Power will be bound by the Code as will new electricity retailers entering the market."

The draft Code seeks to strike an appropriate balance between protecting the interests of consumers and minimising the compliance costs of industry.

The public consultation process has provided significant support for the initiative. A copy of the draft Code may be obtained from www.eriu.energy.wa.gov.au. The Final Code to be approved by the Minister is to be effective from early 2005.

Electricity Networks Access Code

In the previous issue of *Electricity Reform News*, it was reported that the Electricity Networks Access Code was scheduled for implementation later this year.

On 30 November the Minister for Energy, Hon Eric Ripper, approved the Code, which came into operation on 1 December 2004.

The Code prescribes commercial arrangements, including charges, which will apply in respect of electricity generators and retailers accessing Western Power's electricity network.

In announcing the Code, the Minister said that Western Power's monopoly dominance throughout the electricity supply chain had been seen as a factor inhibiting competition. "The new Code aims to give potential investors a level playing field," the Minister said.

The new Code will be independently administered by the Economic Regulation Authority. Initially, only the South West Interconnected System (SWIS) will be covered under the Code, but there is potential for other networks to be covered.

Under the Code, Western Power has about six months to develop a proposed access arrangement for the SWIS, which requires the approval of the Economic Regulation Authority, and following detailed consultation with stakeholders.

The Code has been developed in close consultation with the Access Code Development Committee. The Committee was established in November 2003 as a means of obtaining direct industry input into the development of the Code. A draft of the Code also underwent six weeks of public consultation.

The Code includes a number of innovative provisions, which are seen as improvement upon elements in Access regulations operating in other States.

ERIU Executive Director, Steve Edwell said that "WA had been fortunate to be able to learn from the experience of other States, and the recent Productivity Commission's review of the National Gas Access Code."

A principle underlying the Code is the importance of negotiated outcomes between Network Service Providers and Access seekers. Hence, a key objective of the Code has been to balance the interests of the users and the Network Service Providers by ensuring a level playing field as a basis for negotiations rather than being overly prescriptive. In this respect, the new Access Code provides a comprehensive regulatory regime, whilst providing significant flexibility and discretion to parties.

There has been considerable industry frustration regarding network access in the past according to Steve Edwell. "This has been as a result of Western Power's monopoly position and market dominance throughout the electricity supply chain. As such, a robust Network Access Code is a core reform element from industry's perspective."

The Government intends to seek certification of the Access Code as an effective access regime under part IIIA of the Trade Practices Act from the National Competition Council.

A copy is available on the ERIU's website www.eriu.energy.wa.gov.au



Electricity Reform Implementation Unit Website

Progress reports, newsletters and drafts of legislation, Market Rules and the Access Code are regularly published on the website.

Public release of drafts and position papers on aspects of the reform, including the Access Code and Market Rules will ensure that all interested parties have the opportunity to provide detailed comments on various parts of the electricity reform process.

In addition to having an opportunity to provide input into drafts and position papers, workshops and forums are held on an ad hoc basis. Details of these events will also be on the ERIU website.

The ERIU website address is www.eriu.energy.wa.gov.au

Legislation Update

The Government has continued to deliver upon its electricity reform agenda through further major legislative enactments.

In September 2004, the *Electricity Legislation Amendment Bill 2004* was approved by the Parliament.

This Bill provides for increased governance of Western Power Corporation and the seamless transition to the new electricity market arrangements in terms of licensing, access to the electricity networks and generation procurement, thus avoiding duplicity of regulatory regimes.

The new legislation was proclaimed in November 2004 together with most of the remaining sections of the Electricity Industry Act.

STAKEHOLDER REGISTER

Interested parties are invited to lodge their expression of interest.

When submitting an interest, please provide your details, including:

- company name;
- contact person;
- telephone number;
- facsimile number; and
- email address.

Please advise the topics that are of particular interest to allow the ERIU to target its distribution of information.

To submit an interest, please address it to:

Office of Energy
Electricity Reform Implementation Unit
Level 8, 197 St Georges Terrace
PERTH WA 6000

Telephone: (08) 9420 5750

Facsimile: (08) 9420 5755

Email: eriu@energy.wa.gov.au



Level 8, Governor Stirling Tower
197 St Georges Terrace
PERTH WA 6000

Telephone (08) 9420 5750

Fax (08) 9420 5755

Email eriu@energy.wa.gov.au

Website www.eriu.energy.wa.gov.au