INDEPENDENT MARKET OPERATOR

Wholesale Electricity Market
Rule Change Proposal Submission Form

RC_2012_10 Limits to Early Entry Capacity Payments

Submitted by

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Submission

1. Please provide your views on the proposal, including any objections or suggested revisions.

Background

Originally, the Market Rules provided for capacity from new Facilities to be made available to the market at any time during a four-month window (between 1 August and 30 November) centralised around 1 October. Market Participants were able to nominate any date within the window, and may revise their expected entry date as the project nears completion. Capacity credit refunds applied from 1 December onwards.

RC_2009_11 amended the Market Rules to allow capacity from new Facilities to be made available to the market and receive Capacity Credit income during a four-month window between 1 June and 1 October, centralised around 1 August, with Capacity Credit refunds applying from 1 October onwards. The changes were intended to reduce the risk associated with new entrant generators not being available by the summer peak period. By coming on no later than 1 October new plant would have a few months to fine-tune its operations before the summer peak demand period.

Proposed changes

Synergy's proposal (RC_2012_10) would amend clause 4.1.26 of the Market Rules so that only capacity provided by Scheduled Generators and Non-Scheduled Generators could enter the market and be paid for their new capacity prior to 1 October. For all other types of Facilities, specifically capacity provided by Demand Side Programmes (DSP), Reserve Capacity Obligations and hence payments would commence on 1 October.

In issuing its notice requesting submissions on RC_2012_10, the IMO sought the views of interested parties on removing early entry capacity payments in their entirety - that is, for both generation and demand side options.

Draft Rule Change Report

Following the first round of public consultation, the IMO proposed to reject Synergy's proposed changes on the basis that the proposed changes would be inconsistent with the

Market Objectives. In particular, the IMO considered that the proposed changes would discriminate against DSM (Demand Side Management) technology options.

The IMO however acknowledged the concerns raised by stakeholders around the costs of early capacity payments to the market, and noted that Synergy and other stakeholders had proposed a number of alternative options to provide for a better cost-benefit trade-off for early capacity payments. In particular, a number of submitting parties stated their broader support for changes to remove capacity payments for all facility types during times of excess capacity. The IMO noted that as further work would be required to develop and assess this option it has included the issue into its Rule Issues Log for further consideration.

Alinta's views

Alinta supports Synergy proposed changes under RC_2012_10.

Providing new entrant DSPs with access to early entry capacity payments was not originally intended by RC_2009_11 and is not justified on the basis that they reduce the risk to power system security and reliability over the summer period. There are differences in the characteristics of generation and DSM which mean that the commissioning risk of DSM capacity is not as high. RC_2009_11 was intended to incentivise early entry of capacity to ensure any post-commissioning further refinements to operation could be undertaken before the Hot Season, DSP's are however not exposed to the post-commissioning reliability issues of a generator.

More broadly Alinta supports the IMO in developing and progressing changes to the availability of early entry capacity payments to ensure that generation assets are only entitled to these payments where there is a shortage of capacity. This would result in a more resilient market design and remove unnecessary costs that are currently being incurred by the market. Alinta however requests further details of the relative priority of this work compared to other items on the rule change log and Market Rules Evolution Plan from the IMO.

Further details of Alinta's views are outlined below.

Original changes to the window of entry

At the time when the original rule change which moved the window of entry into the market to be 1 June (RC_2009_11) was considered there was a considerable risk of capacity shortage occurring in the market. Alinta however opposed RC_2009_11 because:

- the IMO's Rule Change Proposal indicated that RC_2009_11 would potentially double the cost incurred by the market for a given amount of new capacity entering the market; and
- none of the identified benefits had been quantified, meaning it was unclear whether the benefits that were claimed to be associated with RC_2009_11 exceeded the costs.

During the consultation processes for RC_2009_11 there was no discussion that DSP's or other non-generation capacity should be entitled to enter the market early and receive capacity payments. This was an oversight at the time which has unintentionally resulted in new entrant DSM receiving approximately $9 million of early entry capacity payments since the 2011/12 Capacity Year despite their being a current over-supply of capacity.

Commissioning risk of DSM

A DSP will consist of a number of existing loads (or new loads) and so commissioning activities relate to developing systems, processes and telemetry (currently optional)[1]. Commissioning activities for generators are markedly different, involving testing new

[1] Alinta notes that the concept of Commissioning Tests under the Market Rules only applies to generating systems not DSM.

equipment under a multitude of scenarios to satisfy the generators obligations under the Technical Rules.

The IMO acknowledges the differences in the commissioning activities of these two types of facilities in its Draft Rule Change Report, stating that while DSM commissioning may not be as complex of that associated with a generator it still has an associated summer peak period arrival risk. In support of this position the IMO refers to a circumstance where a new entrant DSP did not enter the market in time to receive all of its early entry capacity payments. It is unclear however what exactly caused the delay in the entry of the relevant DSP into the market. Alinta suggests that it is most likely that the delay was as a result of insufficient loads having been contracted to provide the necessary curtailment service rather than commissioning activities causing a delay.

Alinta does not consider contracting should be treated as a commissioning activity for the purposes of the IMO's assessment of whether DSM has a summer peak period arrival risk. For a DSP any contracting of Associated Loads should have occurred prior to its commissioning activities; including contracting into any list of commissioning activities is equivalent to including "building of turbines" onto the list of commissioning activities for a generator. Until there is a facility constructed (which for a DSP requires having put contracts in place) there is in essence no facility to commission. While not having a facility built in the first place is a risk to the system, mitigating this risk is not the intention of early entry capacity payments. Rather it should be mitigated through the IMO's certification processes.

Overall there has not been sufficient evidence presented to suggest that DSM is exposed to the same post-commissioning risk as generation and therefore should be entitled to early entry capacity payments. Additionally it is questionable whether the value of DSM capacity during a short supply situation is in reality exactly the same as that provided by a traditional generation assets due to differences in their performance drivers.

Alinta suggests that the IMO seeks System Management's advice on the differences between the commissioning activities of a generator and a DSP, and the associated risks to system security and reliability.