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<u>RC_2012_10: Limits to early entry capacity payments</u>

Griffin would like to provide brief comment on proposed rule change RC_2012_10:

Summary:

- Synergy proposes to remove the ability for DSM capacity (though more generically perhaps Synergy means all non-generation capacity?) to receive 'early' capacity payments (as early as 1st June, rather than the start of the new capacity year of 1st October)

- IMO contends that the possibility to bring capacity accreditation and payment was introduced during a period of "capacity shortage" and that basically – as there is no shortage now, the rule provision allowing for early accreditation should now be removed.

The RCM WG recently declined to define 'generation' capacity, and 'non-generation' capacity, separately. Griffin's view was that broadly defining the different capacity types separately would have provided scope for proposals such as this by Synergy's to be considered in this manner. However, as "Certified Capacity" has been broadly defined as *any* marginal MW of energy (produced or shed), Griffin will not support a proposition that one form of capacity be treated differently than another form, despite the legal interpretation supplied. (As an aside the Market Objectives should not need on-going legal interpretation lest this lead to future delays in progressing rule changes, or worse, legal wrangling with material financial outcomes.)

Griffin notes that the IMO counter-proposes that it may be more appropriate to treat all capacity equally and that given, the over-supply of capacity in the market, the proposal to remove the ability to receive early capacity payment be extended to all capacity. The reason given is that the rule was originally introduced in a period of "… capacity shortage …", which is no longer the case, and that therefore the rule can now be effectively removed to suit current system conditions.

As noted at recent RCM WG meetings it is important that where possible rules be designed such that they are robust, transparent and cater for future changes in system conditions. It is not practical, or desirable, to introduce new rules when capacity tightens, discard the rule when there is an over-supply, presumably re-introduce it when margins tighten and so on.

Griffin proposes the rule allowing early capacity payments remain in place but that <u>early accreditation and payments are only available/accessible when the MT PASA analysis predicts a Reserve Margin falling below a pre-determined threshold</u>. That threshold could be proposed by System Management's planning engineers as being a margin which puts the SWIS at some increased risk of capacity shortfall under certain conditions (eg. 1 in 10 year peak, major plant failure, no wind etc) – at the very least the margin should not be arbitrary, it should have some genuine method and meaning.

In this way the flexibility the rule provides is preserved for a future time when the SWIS may experience a tightening of reserve margins (an additional incentive to bring capacity online sooner when needed) and provide no additional incentive when capacity on the SWIS is above a determined comfort zone.

Sincerely,

Andrew Stevens
Manager – Energy Trading