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## Wholesale Electricity Market Rule Change Proposal Submission Form

### RC\_2012\_10 Limits to Early Capacity Payments

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#### Submitted by

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#### Submission

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**1. Please provide your views on the draft report, including any objections or suggested revisions.**

Synergy supports RC\_2012\_10 as it removes an unnecessary cost to the market by not making early arrival payments to new capacity of types which could not be considered to have a summer peak period arrival risk.

Synergy believes that this rule change is one step towards improving the cost benefit trade-off between ensuring that new generators will be reliable for the summer peak period and making early capacity payments.

RC\_2012\_10 is not the only possible step to improve the early capacity payments mechanism; although Synergy submits that it is a necessary step. To promote discussion on this topic Synergy has issued a concept paper timetabled for the August 2012 MAC meeting which canvasses further considerations such as:

- Instead of early capacity payments being the default position, allow the IMO, as is the case with supplementary reserve capacity auctions, to determine for the capacity year whether early capacity payments are needed to avoid substantial new generation capacity missing the summer peak period and exposing the market to an unacceptable level of reliability risk; or
- Ascertain if early capacity payments make a material contribution to the more reliable arrival of new generation capacity or whether the existing refund penalty is the key driver in promoting arrival before summer, when reliability becomes a greater concern. If the latter turns out to be the important determinate of arrival time, then the market may consider, as suggested in the IMO's covering summary to this rule change, removing early capacity payments to all forms of capacity.

Synergy complements the IMO in providing a succinct and accurate description of the rule change proposal in its covering summary to the rule change. For further clarity Synergy also wishes to add the following points in regard to harmonisation:

- (i) Harmonising is still a concept under discussion and development by the Reserve Capacity Mechanism (RCM) working group, and at this time it is not known whether it will be adopted, and if so then what form it will finally take and therefore it should not be taken into consideration in assessing this rule change.
- (ii) Harmonising, as being discussed by the RCM working group, is endeavouring to align the availability of the capacity types by increasing DSP availability and dispatch obligations to more closely reflect that of generators. Harmonising in this form better supports the view that DSPs ought to receive the same availability payment as generators, removing concerns that they represent a lesser form of capacity and therefore poor value for money.
- (iii) Finally, rule change RC\_2012\_10 has a different focus to harmonising as being discussed by the RCM working group in that it identifies that the arrival risk applicable to new generators differs to that of DSPs in respect of potential impact on system reliability. Synergy therefore concludes that harmonising, if adopted, will not impact the relevance of this market rule change proposal.

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## **2. Please provide an assessment whether the change will better facilitate the achievement of the Market Objectives.**

i) This rule change promotes market objective a) through the removal of unnecessary early capacity payments to capacity types which do not need such incentive payments to ensure they are available by 1 October. Synergy contents that the limiting of early capacity payments as proposed by this rule change will not impact system reliability.

ii) This rule change is not inconsistent with market objective b).

iii) This rule change supports market objective c) by removing any concerns of indirect discrimination currently applying against scheduled and non-scheduled generators as highlighted in the Lavan legal advice recently circulated to MAC members. Also, Lavan's advice demonstrated that a rule change of this nature cannot represent direct discrimination as had previously been suggested given that there are fair reasons for the market to treat DSP capacity differently to how it treats generator capacity. The rule change proposal indicated a number of different treatment arrangements currently in the market rules as evidence that the outcome of this rule change is consistent with the application of the market rules. Another example of the different treatment of capacity types, not included in this rule change but referenced in the legal advice, relates to limiting early certification of capacity to certain capacity types. Market rule 4.28C.1(b) limits early certification to generating systems only, based on the understanding that other forms of capacity, such as DSPs, do not need the longer lead times for financial preparations. This example is a closer fit to the current rule change in terms of how the market rules already allow differential treatment of different capacity types for reasons of practicality.

iv) This rule change supports market objective d) in that it minimises the long-term cost of electricity.

v) This rule change is not inconsistent with market objective e).

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**3. Please indicate if the proposed change will have any implications for your organisation (for example changes to your IT or business systems) and any costs involved in implementing these changes.**

Synergy does not believe this rule change will result in any system or business costs.

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**4. Please indicate the time required for your organisation to implement the change, should it be accepted as proposed.**

Synergy believes this rule change can be implemented before the end of calendar 2012.

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