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## Wholesale Electricity Market Rule Change Proposal Submission Form

### RC\_2013\_10 Harmonisation of Supply-Side and Demand-Side Capacity Resources

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#### Submitted by

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#### Submission

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

#### Fuel Requirements

To receive Certified Reserve Capacity for a Scheduled Generator under the current Wholesale Electricity Market Rules and Market Procedures, a Market Participant must demonstrate that the Facility's fuel storage, supply and transport arrangements are sufficient to allow 14 hours (Peak Trading Intervals on Business Days) of continuous operation.

Synergy supports the general principle behind the IMO's proposal to relax the requirement for Facilities to have "firm fuel" supply contracts in place on the basis of the IMO's assessment that there are sufficient commercial incentives in place to ensure generators secure sufficient fuel supply. Further, Synergy understands that it isn't practical to apply a single fuel requirement across all Facilities (a one size fits all approach), nor is it practical to draft rules and procedures to outline fuel requirements for all fuel types, technologies and plant operational characteristics<sup>1</sup>. As such, this proposal needs to be able to strike the correct balance between providing regulatory certainty for participants, whilst also providing an appropriate amount of flexibility.

In its Rule Change Proposal the IMO indicated that it would also need to amend the Market Procedure: Certification for Reserve Capacity prior to the commencement of the proposed

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<sup>1</sup> For example base load, mid-merit or peaking generation.

Amending Rules discussed in this Rule Change Proposal. The IMO indicated that amendments to this Market Procedure will capture the assessment of primary and alternative fuel supplies for certification of Reserve Capacity.

The IMO has proposed the following amendments to the Market Procedure: Certification for Reserve Capacity:

4.3.1 The IMO must assess:

- (a) the details and evidence of firm and non-firm fuel supplies provided by the applicant under clause 4.10.1(e)(v) of the Market Rules; and
- (b) any restrictions on the availability of the Facility due to staffing constraints or other restrictions, as specified by the applicant under clause 4.10.1(g) of the Market Rules,

to determine whether it reasonably expects that the Facility is likely to be available at the level of capacity determined in step 4.1.1 ~~1 for Peak Trading Intervals on Business Days~~. [Clause 4.11.1(a)].

4.3.2 When making a determination in step 4.3.1 the IMO:

- (a) must consider the expected operational characteristics of the Facility;
- (b) must consider the potential impacts that limitations on the availability of the Facility may have on its ability to contribute to Power System Adequacy; and
- (c) may consider the water requirements for the Facility.

While supportive of the general principle behind the proposal, Synergy is concerned that the proposed Amending Rules and proposed amendments to the Market Procedure, when read together, introduce regulatory risk and uncertainty as to how the IMO will apply its discretion in assigning Certified Reserve Capacity. Specifically Synergy is concerned that the broad drafting of the proposed Amending Rules and proposed amendments to the Market Procedure could mean that Facilities with certain operational characteristics may be required to demonstrate fuel availability far in excess of what the current rules require i.e. 24/7 operation, 365 days of the year. Further, under the proposed amendments a Market Participant has no certainty as to what it needs to provide the IMO with in its certification application, and there is a risk to participants that the IMO could apply different requirements to different participants between Capacity Years.

At the request of Market Participants, the IMO held an IMO Procedures Working Group meeting on 6 February 2014 to discuss the proposed amendments to the Market Procedure: Certification for Reserve Capacity, among other things. This working group meeting was followed up with an additional meeting with the IMO and a number of interested stakeholders. At these meetings the IMO clarified that the intent of proposed changes was to be less prescriptive, to make the requirements more flexible (and thus hopefully more efficient) and to follow the general principle that a Facility needs to have appropriate fuel supplies to be available when required. It was agreed that this intent should be formally documented (for future reference and guidance) in the relevant Market Procedure. Further,

the IMO agreed to formally document that it would not require evidence of firm and non-firm fuel supplies at a more arduous level than is currently required (i.e. the 14 hour fuel requirement for primary fuels and the 12 hour requirement for alternative fuels). Synergy is supportive of this approach as it provides more certainty for participants, whilst still retaining the flexibility that this proposal is seeking to achieve.

#### **Proposed drafting of clause 4.10.1(e)**

The proposed drafting of clause 4.10.1(e) includes an additional requirement for a Market Participant who has a Facility with both primary and alternative fuels to provide “the process for changing from one fuel to another”.

This information is already required as part of a Facility’s Standing data (see (b)xi in Appendix 1 of the Market Rules). As such, it is not clear from the IMO’s proposal as to why a participant also needs to provide details of the process for changing fuels each year in its certification application.

#### **Requirement for Telemetry at Associated Load level**

In its first submission, Synergy outlined its concerns regarding the IMO’s arguments for real-time telemetry services for Demand Side Programmes (DSPs).

Synergy accepted that there may be merit in providing System Management with information about the consumption status of DSP Facilities. Noting that it may assist System Management, in the context of working through the non-balancing dispatch merit order, in deciding how much DSP capacity needs to be dispatched to achieve a targeted reduction in load.

In contrast however, Synergy noted that it could see no reason to mandate that consumption level information in respect of each Associated Load comprising a DSP Facility also be provided to System Management. Synergy considered that this would not assist System Management in undertaking their decision-making functions in regard to dispatching DSP Facilities. In fact, given that a DSP Facility may comprise many Associated Loads, some offering less than 100 kW, Synergy suggested that providing such information, merely because of its sheer volume, will hinder rather than assist the dispatch decision process which Synergy noted is taken at Facility level, not the Associated Load level.

Synergy notes that this sentiment was mirrored by System Management in its first submission, where it stated:

*System Management believes the value of each associated load is not relevant for dispatch, it is the value of the DSP that is important. The requirement to telemeter each associated load is additional cost that has no demonstrable benefit.*

*[emphasis added]*

Further, in its first submission Synergy noted a concern with the limited cost analysis presented in the Rule Change Proposal. Synergy suggested that, due to the difficulty in drawing conclusions about the cost-benefit of the proposed changes (especially in regard to mandating that consumption status information be provided to System Management at the

Associated Load level), the proposed new clause 2.35.3C(b) be deleted from the rule change proposal until it could be demonstrated that there was a favourable cost benefit.

In response, the IMO has provided the following:

### **Costs**

- Fixed, one-off costs of \$350,000 to \$450,000 for each Market Customer with a DSP for building and testing new software systems;
- Further \$50,000 to \$100,000 per annum for ongoing monitoring and maintenance for each Market Customer with a DSP;
- System Management is expected to incur costs of \$200,000 to \$400,000 to expand the current web service and provide the necessary administration; and
- The IMO is also expected to incur one-off costs of approximately \$160,000 to amend IMO systems to provide for the amendments to the validation for certification, methodology for Capacity Credit allocation and settlements and ensure that the necessary telemetry data can be captured and stored as necessary.

While the IMO has estimated these costs per participant, Synergy notes that it has not shown the aggregated costs. When aggregating these costs over a seven year period for current Market Customers who have DSPs Synergy estimates the costs to be within the range of \$5.2 million to \$8.6 million.

### **Benefits**

The IMO has noted the following in terms of its “benefits” assessment of this proposal:

- The IMO considers that the identified costs are expected to be far outweighed by the benefits to the market of the increased efficiency and cost effectiveness of the operation and dispatch of the service in the long-term as outlined in the Wholesale Market Objective analysis section of the Draft Rule Change Report; and
- The IMO considers that the benefit of increasing the economic value of this capacity far outweighs the cost.

Synergy considers that the IMO has failed to demonstrate that there is a clear favourable cost benefit for this aspect of the proposal. Especially as System Management, who is purported to receive the benefits of the telemetry requirements at the Associated Load level, has been clear that it does not consider that the information at Associated Load level is important or required, nor does it have any demonstrable benefit.

As such, Synergy again requests that the proposed new clause 2.35.3C(b) be deleted from the rule change proposal until it can be demonstrated that there is a favourable cost benefit.