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## Wholesale Electricity Market Rule Change Proposal Submission Form

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

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#### Submitted by

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#### Submission

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

#### Background

The MAC charged the Reserve Capacity Mechanism working group with addressing a number of issues identified in the Lantau Group's report, Review of RCM: Issues and Recommendations, commissioned by the IMO board, which focused on the effectiveness and efficiency of the Reserve Capacity Mechanism.

Harmonisation of supply and demand side emerged as a theme from the working group's deliberations. In regard to supply side this resolved to easing mandated fuel requirements for certified capacity on the basis that sufficient commercial incentives exist, in the form of the market for energy, ancillary services and capacity refunds, for generators to make their capacity available when needed. In regard to demand side this resolved to uncapping dispatch events, increasing business day availability to 10 hours, increasing minimum dispatch commitment from 4 to 6 hours and reducing the maximum notice period from 4 to 2 hours.

#### Synergy's views

*DSM – an alternative should be considered*

In its submission to the ERA's 2012 Annual WEM Report to the Minister for Energy, Synergy noted a number of attributes differentiate DSM from conventional generation capacity such as it being naturally limited in its performance in providing capacity. This is because participating in the RCM is secondary to the primary function of a load which is producing widgets.

Synergy posited that a better outcome than seeking to "harmonise demand side" would be achieved by recognising that DSM is a limited product and developing compensation

measures that take account of its underlying cost structure and encourage positive dispatch response. In particular, Synergy noted that DSM cost structures do not align with that of a 160 MW OCGT and are typified by a low fixed cost and high opportunity cost of dispatch. Designing a compensation scheme along these lines would undoubtedly improve market efficiencies as total payments by the market would be reduced in a typical load year.

Further, a closer alignment between DSM dispatch opportunity costs and compensation would result in improved reliability as DSPs would be disinclined to reject dispatch instructions. As the current structure of the RCM would inhibit development along these lines, Synergy suggested an innovative alternative approach was needed, such as considering a second capacity product or treating DSM as a type of ancillary service (both allowing a different compensation structure), to maximise the efficiencies from retaining DSM as part of the capacity mix.

*Telemetry at Associated Load level – case not made*

Synergy also wishes to comment on particular elements of this rule change proposal. In particular, Synergy has concerns about elements of Issue 3 which addresses the arguments for real-time telemetry services for DSPs. Currently, while the non-balancing dispatch merit order provided by the IMO enables System Management to select and issue dispatch instructions to DSPs in accord with clause 7.6, no information is provided about the real-time status of the DSPs. It is stated in the proposal that the lack of real-time information about DSP consumption levels impacts System Management's confidence in the use of DSM and that this justifies imposing a requirement on Market Customers to provide System Management with half-hourly to updates of consumption at both the DSP Facility and Associated Load levels.

Synergy accepts that there may be merit in providing System Management with information about the consumption status of DSP Facilities. 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 can 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 doubts this will 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 suggests that providing such information, merely because of its sheer volume, will hinder rather than assist the dispatch decision process which Synergy notes is taken at Facility level, not the Associated Load level.

Furthermore, Synergy notes that the cost analysis presented in table 2 of the rule change proposal is limited: it only provides estimated cost information related to the cost for System Management to provide a B2B Web Service for DSPs; it does not include any allowance for the costs to be incurred by DSP providers. Synergy suggests that without such information it is difficult to draw 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. Accordingly, until such time as an unambiguously favourable cost-benefit can be made in regard to providing information at the Associated Load level, Synergy recommends that proposed new clause 2.35.3C(b) be deleted from the rule change proposal.

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

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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 notes that the proposed changes may have significant impact on its business IT systems. However, until such time as the Power System Operation Procedure has been updated to specify acceptable communication methods, it is difficult to be estimate cost impacts accurately.

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

See response to 3 above.