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## Wholesale Electricity Market Rule Change Submission Form

### RC\_2013\_09 Incentives to Improve Availability of Scheduled Generators

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#### Submitted by

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#### Submission

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

#### ***Background***

Since 2006 when the Wholesale Electricity Market (WEM) commenced operation, a number of Scheduled Generators have had relatively high levels of Planned Outages (for which there is no requirement to refund Capacity Credit income) compared to international standards.

Concerns with the low availability of Scheduled Generators have been raised by the Economic Regulation Authority (ERA) and the Independent Market Operator (IMO). In particular, the ERA stated the following in its most recent report to the Minister on the effectiveness of the market:

*“The Authority is concerned with the high rates of planned outage that have been observed for some Verve Energy plant over consecutive years. These generators received full capacity payments under the current market arrangements, whilst being unavailable for extended periods on planned outage, causing higher prices in the energy market than would otherwise be the case. The Authority considers that this is an inefficient market outcome.”*

The IMO considers that a low level of availability of these facilities has had the following implications:

- Poor value for money;
- Inefficiency with respect to market pricing outcomes;
- Higher risk to the system;
- Inequity within facility class;
- Retention of inefficient and unreliable generating plant;
- Misleading capacity supply signals.

These impacts are considered to be inconsistent with the Wholesale Market Objectives of economically efficient, safe and reliable supply of electricity (a), encouraging competition (b), and minimising the long-term cost of electricity to customers (d).

### ***Rule Change Proposal***

It has been suggested that the low levels of availability of some plant is reflective of inadequate incentives existing in the current Market Rules for Market Participants to maximise the availability of their Scheduled Generators. The IMO subsequently proposed the following changes to the Market Rules to address the issue:

- Enable the IMO more flexibility in assigning a reduced quantity of Certified Reserve Capacity (CRC) to Scheduled Generators that display excessive outage rates over a 36 month period;
- Impose an upper limit on the number of Trading Intervals in any 36 month period for which a generator can receive a reduction of its Reserve Capacity Obligations Quantities (RCOQ) due to Planned Outages; and
- Provide the IMO with discretion to require performance reports from a Market Participant concerning a Scheduled Generator with an excessive Planned Outage rate, regardless of the availability of total system capacity.

### ***Alinta's views during first round of consultation***

While Alinta agreed with the general concern that making equal capacity payments to unreliable generators as is paid to reliable generators is an inefficient market outcome, we did not agree with the ERA's concerns that higher prices in the energy market during an outage of a facility is in itself an inefficient market outcome that warrants further market intervention.

Subsequently Alinta did not support the proposed suite of changes to the Market Rules for the following reasons:

- Notwithstanding that there was no persuasive evidence presented to industry to justify the broad suite of proposed changes, the current Market Rules already provide the IMO an ability to address any concerns around high levels of unavailability;
- There is unlikely to be a risk to security of supply as under the current rules System Management must take consider the impacts to system security when assessing whether an outage can be approved;

- The IMO appears to be incorrectly assuming that having available capacity is the same as having reliable capacity;
- There are likely to be off-market incentives for the availability of mid-merit and baseload generators that need to be appropriately considered; and
- The proposed amendments place an unnecessary regulatory burden on all Scheduled Generators, adding to the costs of operating in the market.

Alinta did however acknowledge that there could be further refinements made to the existing mechanisms under the rules for addressing high rates of unavailability of facilities. On this basis our views on the specific changes proposed by the IMO were as follows:

- Supported the IMO's changes to enable greater flexibility when assigning CRC;
- Did not support the proposed introduction of a cap on Planned Outages and tightening the combined outage rate; and
- Did not support the proposed changes to the IMO's powers under clause 4.27

Specific details of Alinta's views are outlined in its 27 August 2013 submission available on the IMO's public website.

### ***Draft Rule Change Report***

In its Draft Rule Change Report the IMO made a number of amendments to the proposed Amending Rules, including:

- Refining the methodology used to impose a cap on refund exempt Planned Outages;
- Amending the cap on refund exempt Planned Outages from 14.8% (averaged over 36 months) to 17.5% (averaged over 1000 Trading Days). This range is consistent with the suggestions of Verve Energy<sup>1</sup> and Bluewaters.
- Removal of clause 4.27.9 (and related provisions) in response to concerns from Alinta and Verve Energy with respect to the regulatory risk and uncertainty created by the IMO being able to adjust the cap on refund exempt Planned Outages for participants.

The IMO also made a number of minor changes including to publish the Planned Outage rate of relevant generators to enable participants to continuously monitor their rates.

### ***Alinta's views on the Draft Rule Change Report***

Alinta continues to not support the proposed suite of changes for those reasons stated in its first round submission, despite the rationale for the changes presented in the IMO's draft report. However rather than simply reiterating the contents of its first round submission, Alinta has provided details of its views on those relevant additional changes made by the IMO in its draft report below.

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<sup>1</sup> Alinta notes that following the remerger of Verve Energy and Synergy on 1 January 2014 the relevant submitting party is now referred to as Synergy.

Alinta does however wish to raise an additional point which has become more evident since the publication of the IMO's draft report. That is the proposed amendments will result in three separate percentage measures of poor availability of a Scheduled Generator that are set at differing levels being reflected in the Market Rules:

- Reserve Capacity Performance Monitoring - Equivalent Planned Outage Hours of greater than 20% (i.e. exceeds 1750 hours during the preceding 12 Trading Months);
- Reserve Capacity Certification – From 2020/21 onwards a Forced Outage rate of 10% and combined Forced and Planned Outage rate of 20% (as reflected in the Outage Rate Limit Table).
- Capacity Refunds – Refund Exempt Planned Outage Count of 17.5% (calculated over the 1000 Trading Days preceding the relevant Trading Day).

It's unclear whether it would be possible to better align these measures given that all relate to incentivising availability of Scheduled Generators. Alinta notes that as currently proposed this will potentially require monitoring of three different streams of information thereby creating additional complexity. It is acknowledged that the current rules require potential monitoring of two streams of information (for the purposes of performance monitoring and certification) however it would be advantageous to consider whether this could be simplified as part of this rule change process.

Specific details of Alinta's views of the IMO's additional amendments follow:

- ***Refining the methodology used to impose a cap on Planned Outages exempt from refunds*** – Refer above for details of Alinta's broader concerns respect to the introduction of alternative percentage measures of poor performance. Alinta has no specific views on the IMO's proposed changes to the methodology presented in the IMO's draft report.
- ***Amending the cap on Planned Outages exempt from refunds*** – Despite not being supportive of the introduction of a cap on outages, Alinta commends the IMO in reconsidering the appropriateness of the level of the outage cap in response to stakeholder feedback that the proposed level was too low. While we are not in a position to provide feedback on the suitability of the proposed level of the cap we note that the IMO's amendments would place the cap within the suggested ranges of both Verve Energy and Bluewater's.
- ***Removal of clause 4.27.9*** – Alinta supports the IMO's proposed changes to address the concerns it raised previously with respect to the regulatory uncertainty and risk that would be introduced by enabling the IMO to adjust a participant's PO cap when the system capacity availability criterion is met.

For the record we maintain the view that the ability for the IMO to request performance reports will create regulatory burden and is not required to address the core issue under consideration by the IMO.

- ***Publication of Planned Outage rates*** – Alinta supports the IMO's proposal to publish the PO rate for each Scheduled Generator. Making this information public will

mean that individual Scheduled Generators do not need to develop internal systems to calculate this rate.

We note however that internal monitoring processes will still be required to be developed by relevant participants and that average rates over a moving 1000 Trading Day period will need to be considered when developing long term outage plans. Alinta estimates a minor cost to develop its IT systems to enable automated monitoring of approximately \$2000, assuming that the data feed is provided via web services.

If you require any further clarification of the matters raised in this submission please directly contact Fiona Edmonds, Wholesale Regulation Manager.