



Wholesale Electricity Market Rule Change Proposal Submission Form

RC_2013_09 Incentives to Improve Availability of Scheduled Generators

Submitted by

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Submission

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

Summary

Verve Energy, now known as Synergy¹, noted in its first submission that it considered that the Independent Market Operator's (IMO's) Rule Change Proposal:

- was an over-reaction to a current set of circumstances² in the Wholesale Electricity Market (WEM) which will lead to additional, unnecessary costs for Market Generators (which will be ultimately passed onto end users);

¹ Effective from 1 January 2014, the Electricity Generation Corporation trading as Verve Energy changed its name to Electricity Generation and Retail Corporation trading as Synergy. This name change was instituted to reflect the merger of Verve Energy and the Electricity Retail Corporation trading as Synergy as detailed in the Electricity Corporations Amendment Bill 2013 (WA) (passed by the parliament of Western Australia on 12 December 2013 and received Royal Assent on 18 December 2013).

² The outage rates displayed by some facilities were entirely within the bounds of the Market Rules (as drafted at the time) and in part were an outcome of the excess capacity in the WEM. In approving Planned Outages System Management needs to ensure that there is sufficient margin available to ensure system security can be maintained – as such, if the Facilities had been needed, System Management would simply not have approved the Planned Outages.

- did not take into account the natural, and very strong, incentives to be available in a predominantly bilateral contract market;
- did not recognise that availability of a generation facility varies greatly depending on the type of fuel, the design of the facility, how the facility is operated/dispatched, and the stage of its lifecycle that the facility is at; and
- when assessed in its entirety, was heavy handed, introduced onerous obligations, was unnecessarily invasive and simply not needed.

Verve Energy considered that the IMO could achieve the same outcome (i.e. appropriate incentives for availability) by implementing a subset of, and/or modification to, the measures outlined in the Rule Change Proposal. As such, Verve Energy's submission included a number of proposed modifications for the IMO to consider in making its draft decision, including:

- removing the IMO's ability to certify a quantity of Certified Reserve Capacity between zero and full allocation;
- refining the proposal to reduce the combined Planned Outage rate and Forced Outage rate thresholds that trigger clause 4.11.1(h) to allow Market Participants to adjust their behaviour, and for that behaviour to be reflected in the corresponding measures;
- amending the cap on refund exempt Planned Outages from the IMO's proposed 14.8 per cent annual equivalent Planned Outage rate to a rate between 17 – 20 per cent in order to reflect the additional maintenance requirements for thermal plant;
- allowing for a regular review of the outage criteria to apply under clause 4.11.1(h) and the refund exempt Planned Outages cap rather than the proposal to undertake a one-off review by 31 December 2018;
- removing the discretionary power for the IMO to request a performance report and/or performance improvement report(s) from facilities with Planned Outage rates over the prescribed threshold, due to the creation of unnecessary regulatory burden;
- if retaining the proposal for the IMO to request a performance report and/or performance improvement report(s), then increasing the threshold before it can do so and including explicit timing requirements for the performance improvement report(s);
- the socialisation of any costs incurred by the IMO for an opinion on a performance report or performance improvement report(s) across all Market Participants; and
- including an appropriate governance framework around the IMO's ability to further reduce the cap on refund exempt Planned Outages, due to the undue regulatory risk the proposal placed on participants.

Synergy commends the IMO on its decisions to:

- increase the cap on refund exempt Planned Outages from the IMO's originally proposed 14.8 per cent annual equivalent Planned Outage rate to 17.5 per cent annual equivalent; and
- remove the ability to further reduce the cap on refund exempt Planned Outages in certain circumstances.

Synergy considers that by amending the cap on refund exempt Planned Outages the proposal recognises not only different generation types, but also how certain facilities are operated/dispatched, and the stage of its lifecycle that a facility is at.

While Synergy considers that the proposal has been tempered following the IMO's review of first submissions, it still contains some onerous and unnecessary obligations. The IMO is proposing three measures of what could be deemed to be excessive outages:

- a combined Forced and Planned outage rate (30 percent declining to 20 per cent over five years) over 36 months, allowing the IMO to assign Certified Reserve Capacity between zero and full allocation;
- a 17.5 percent annual equivalent Planned Outage rate (trading intervals at 8400 over 1000 Trading Days) as refund exempt Planned Outages; and
- granting the IMO discretion to require a performance report and performance improvement report(s) from a scheduled generator with planned outage rates exceeding 1750 hours in preceding 12 calendar months regardless of total system capacity availability.

Synergy does not agree that all three measures for incentivising availability are required and that the IMO could achieve the same outcome (i.e. appropriate incentives for availability) by implementing a subset of the measures outlined in the Draft Rule Change Report. As such, Synergy considers that the third proposal (performance reports and performance improvement report(s)) is not needed as it creates unnecessary regulatory burden and that the incentives created by the other aspects of the proposal will be sufficient. Synergy refers the IMO to the high level analysis of historic compliance of Verve Energy thermal facilities against the proposed Performance Report threshold of 1750 hours of Planned Outage per year, based on data from 1980 to 2013 provided in the confidential submission to the IMO during the first submission period.

Notwithstanding the IMO's proposed discretion³ with regards to requesting the performance reports, this analysis showed that, on average, Verve Energy would have submitted three to four performance reports a year with each unit reporting around once every four years. This exceedance rate indicates that the IMO's threshold is too low.

Interaction with other Rule Change Proposals

Synergy is still concerned that this Rule Change Proposal has not been adequately assessed in conjunction with other proposals the IMO is progressing.

³ Clause 4.27.3A notes that in making a decision under clause 4.27.3A the IMO must assess whether the number of Equivalent Planned Outage Hours was attributable to a specific, infrequent occurrence or an underlying performance deficiency.

Specifically, Synergy notes that the IMO is undertaking a significant review of the definition of a Forced Outage, which will in turn impact on the definition of a Planned Outage. Synergy is concerned that should there be a significant change to those definitions, then the proposed caps may no longer be appropriate. Synergy recognises that the IMO committed, at the 8 May 2013 public workshop, to undertake a further review if needed. Synergy would like to reiterate the importance of that further review on the proposed caps once the definitions of outages are complete.

In addition, in its first submission Verve Energy noted its concern that this Rule Change Proposal and the dynamic refunds proposal (both of which provide incentives for generators to maximise their availability) did not seem to have been adequately considered together. Synergy has now had the opportunity to review the proposed dynamic Reserve Capacity refund regime and is concerned that there now may be additional, undue, risk for Market Generators which have Facilities above the refund exempt Planned Outage cap who make a decision to undertake further Planned Outages.

The IMO has quite rightly recognised that a rational Market Participant would not risk the high costs of plant failure by failing to undertake necessary maintenance, even where a Facility has reached the proposed cap on refund exempt Planned Outages. A rational Market Participant would appropriately schedule this additional maintenance for a time when there is sufficient margin available to ensure system security can be maintained. However, under the proposed dynamic Reserve Capacity refund regime, the Market Participant – despite having scheduled its maintenance at an appropriate time - may now be exposed to a far higher refund factor resulting from unforeseen supply interruptions. Synergy considers that this is not the correct outcome for the Market Participant who has acted appropriately by scheduling its maintenance at a time that was deemed suitable for the market (via its approval from System Management).

The IMO has noted that the proposed dynamic Reserve Capacity refund regime is “expected to strengthen the incentives for maximising the availability of capacity in the energy market through **efficient scheduling of maintenance**...and reducing the risk of price spikes in the event of **unforeseen supply interruptions**⁴”. The Market Participant that schedules its maintenance appropriately (i.e. a planned supply interruption), and has the necessary approval to undertake that maintenance at that time, should not be penalised at a higher rate due to other Planned Outages and **unforeseen** supply interruptions. Synergy can accept that there will be a penalty for taking Planned Outages over the proposed cap, but it cannot accept that this penalty be applied anywhere from a 0.25 refund factor to a maximum of 6 refund factor.

Synergy notes that, in its first submission, Bluewaters Power suggested that where a Facility is granted a Planned Outage by System Management but is over the proposed cap then that Market Participant should not pay a refund greater than the 1x multiplier. The IMO disagreed

⁴ Page 2 of the IMO's Rule Change Notice for RC_2013_20: Changes to the Reserve Capacity Price and the dynamic Reserve Capacity refund regime.

with this suggestion noting that the standard multipliers would be simpler and therefore less expensive to implement as well as provide a sharper incentive to Market Participants to undertake maintenance when reserve levels are highest. Synergy does not agree with the IMO's rationale for not considering this change, as Synergy notes above, when a Market Participant has scheduled its maintenance when the reserve levels are highest (i.e. up to 2 years in advance) and other participants schedule maintenance closer to real time or there are Forced Outages in real time, the Market Participant who scheduled its outage well in advance should not be liable for up to a 6x multiplier Reserve Capacity Deficit Refund. Synergy urges the IMO to reconsider this stance as part of RC_2013_20: Changes to the Reserve Capacity Price and the dynamic Reserve Capacity Refund Regime.

Specific comments on the proposed Amending Rules

Synergy has the following specific comments to make in relation to the proposed drafting:

- Clause 4.11.1 currently notes that “the Planned Outage rate and the Forced Outage rate for a Facility for a period will be calculated in accordance with the Power System Operation Procedure”. In its pre-Rule Change Proposal “PRC_2013_16: Outages and the Application of Availability and Constraint Payments to Non-Scheduled Generators”⁵ the IMO recognises that, given the increasing significance of the Planned Outage and Forced Outage rate calculations, the outage rate calculation methodology should be transferred from the Facility Outages Power System Operation Procedure into an Appendix of the Market Rules. Synergy agrees with this sentiment, however suggests that this occur as part of this Rule Change Proposal. Synergy considers that this will provide greater certainty and rigour in the calculation of Planned Outage and Forced Outage rates, which is vital to support this Rule Change Proposal.
- Similarly to the issue outlined above, this Rule Change Proposal defines Equivalent Planned Outage Hours (a new concept) as "calculated in accordance with the Power System Operation Procedure". PRC_2013_16 proposes to change this definition to refer to as "calculated ...in accordance with Appendix 10" of the Market Rules. The IMO noted at MAC meeting #67 that it "intended to submit the [PRC_2013_16] Rule Change Proposal into the formal process before Christmas", however PRC_2013_16 has not yet been formally submitted. The Draft Rule Change Report for RC_2013_09 indicates a provisional commencement date of 1 May 2014, as such, it would be desirable to have an instrument defining how Equivalent Planned Outage Hours are calculated by the time that the Amending Rules associated with this Rule Change Proposal commence. Synergy notes that even if PRC_2013_16 was formally submitted into the process, the earliest time that the standard rule change could be completed is later than the proposed commencement date for RC_2013_09. Synergy considers that the Facility Outages PSOP should also be updated to include the calculation methodology for Equivalent Planned Outage Hours as it is likely that any

⁵ Available as part of MAC meeting #66 papers: <http://imowa.com.au/docs/default-source/Governance/Market-Advisory-Committee/mac-meeting-66-combined-papers4E2A299FDD50.pdf?sfvrsn=0>

PSOP change could be completed and able to commence by the proposed commencement date for RC_2013_09. Synergy provided this feedback to System Management during its recent informal submission on the Facility Outages PSOP. However, System Management did not include this in its procedure change proposal published on 10 February 2014.

- In PRC_2013_09: Market Procedure for Reserve Capacity Performance Monitoring the IMO outlined some additional proposed changes to the Amending Rules for this proposal, which it intends to include in the Final Rule Change Report. This included the removal of the reference to “the target and actual availability and reliability of the Facility as measured by Industry Standard Generation Performance Indicators” in clause 4.27.4A(b). Accordingly the IMO noted that it intends to replace clause 4.27.4A(b) with a requirement for the Market Participant to provide details of any changes to the expected maximum number of days of Planned Outages previously provided by the Market Participant for a Trading Month, including adequate explanations for each change. Synergy notes that clause 4.11.1E of the proposed Amending Rules also includes a reference to Industry Standard Generation Performance Indicators.
- The definition of Refund Exempt Planned Outage Count excludes Planned Outages that occurred prior to 1 March 2014. Synergy suggests that this date be amended to reflect the commencement date of the Amending Rules arising from this Rule Change Proposal (currently provisionally set at 1 May 2014). This would make the Amending Rules consistent with the IMO’s comment from the 12 June 2013 MAC meeting that “any Planned Outages which had been undertaken before the commencement date would not be counted towards the rolling cap⁶”.

⁶ Page 6: Minutes from MAC meeting #61 12 June 2013.