

Dora Guzeleva  
Manager Market Administration  
Independent Market Operator  
Level 22 The Forrest Centre  
221 St Georges Tce  
Perth WA 6000

By email: imo@imowa.com.au

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Dear Dora



Alinta Sales Pty Ltd  
ABN 92 089 531 984

Alinta Plaza  
12 - 14 The Esplanade  
Perth WA 6000

PO Box 8348  
Perth BC WA 6849

Telephone +61 8 6213 7000  
Facsimile +61 8 6213 7001

[www.alinta.net.au](http://www.alinta.net.au)

## **WEM Rule Change Proposal RC 2007 08 – Calculation of Reserve Capacity Refund**

Thank you for the opportunity to provide comments on Rule Change Proposal RC 2007 08 "Calculation of Reserve Capacity Refund". This letter sets out the view of Alinta Sales Pty Ltd (Alinta).

### ***The proposed change***

On the 11<sup>th</sup> of June 2007 the Independent Market Operator (IMO) submitted RC 2007 08. The IMO proposed to change the calculation method for reserve capacity refunds to clarify the way in which refunds should be paid. In essence, the IMO proposed to change the legal text of the Market Rules to remove any doubt that the level of reserve capacity refunds will depend on both which time of year (high refunds during summer and lower refunds during winter) and which time of the day (high refunds in peak times and lower refunds during off peak times) a generator fails to deliver on its capacity credit obligation.

The IMO also proposed to introduce separate refund rates for business days vs non business days. Finally, the IMO proposed to introduce higher refund levels for the last two months of the hot season (February and March) compared to the first two months.

### ***Alinta's view***

Alinta considers the Market Rules currently provides a strong incentive on generators to deliver on their reserve capacity obligations with refund multipliers up to 8x as set out in the refund table in clause 4.26 of the Market Rules. Alinta disagrees with the IMO's interpretation of the Market Rules that the multipliers in the refund table are effectively overridden by the seasonal multipliers.

However, Alinta agrees that any possible source of doubt over the interpretation of the Market Rules should be removed to provide as much certainty to market participants and potential investors as possible.

Alinta therefore agrees with the proposed change to the Market Rules and considers the change proposal would better facilitate achievement of objectives (a), (b), and (d) of the Market Rules<sup>1</sup>.

Alinta understands that the driver for setting some of the new refund multipliers to less than unity was to ensure that a generator on an extended outage does not hit the annual cap on the capacity credit refunds “too early” and thereby leaving no incentive to get the generator back online if the outage is a very lengthy one. However, Alinta considers it more important to have a fairly sharp incentive in the short to medium term to get generators back online rather than ensuring there is some incentive spanning the entire year. If the incentive is strong even in the short term, it would be reasonable to assume that that would drive delivery of more reliable plant. Alinta would therefore prefer to have all refund multipliers equal to or greater than one.

## Alinta’s assessment against the objectives of the market

Alinta considers the change proposal has the following impact on the objectives of the market:

Objective	Identified impact
(a)	Alinta considers this objective will be better achieved. By removing any possible ambiguity in the interpretation of the rules for capacity refunds as well as introducing a sharper incentive than the one in place by the IMO’s current interpretation of the market rules more reliable plant should be introduced and retained on the system enhancing system security.
(b)	Alinta considers this objective will be better achieved. By removing any doubt over the possible interpretation of the rules new entry should be encouraged, leading to a more competitive environment in the market.
(c)	Alinta has not identified an impact on this objective.
(d)	Alinta considers this objective will be better achieved by way of the increased level of competition and encouragement of new entry identified above.
(e)	Alinta has not identified an impact on this objective.

## IT systems and cost implications

Alinta has not identified any significant cost impact for its own IT systems.

<sup>1</sup> The objectives of the Market Rules are contained in Market Rule 1.2.1 and are:

- (a) “to promote the economically efficient, safe and reliable production and supply of electricity and electricity related services in the South West Interconnected System”
- (b) “to encourage competition among generators and retailers in the South West Interconnected System, including by facilitating efficient entry of new competitors”
- (c) “to avoid discrimination in that market against particular energy options and technologies, including sustainable energy options and technologies such as those that make use of renewable resources or that reduce overall greenhouse gas emissions”
- (d) “to minimise the long-term cost of electricity supplied to customers from the South West interconnected system”
- (e) “to encourage the taking of measures to manage the amount of electricity used and when it is used”

## **Time required for implementation**

Alinta will be able to make any necessary changes to its internal procedures and systems in line with the proposed implementation timetable for the proposal.

Please call me on 08 6213 7304 to discuss any of the issues raised in this letter in more detail.

Yours sincerely



**Kristian Myhre**  
**Manager Market Analytics**  
**Alinta Sales Pty Ltd**