
Wholesale Electricity Market – Rule Change Proposal Submission Form

RC_2007_08 Calculation of Reserve Capacity Refund

Submitted by

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Submission

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

The Office of Energy (“OOE”) supports the proposed Rule Change.

During the administration of the interim Rule Change process the Minister for Energy agreed to the amendment of the Reserve Capacity Refund Rules (“Refund Rules”) to change them back to their pre-September 2006 form.

In agreeing to this Rule Change it was noted that the intended incentives from the high initial refund level would be significantly reduced, as the refunds would be based on average outage levels. It was also noted that the Market Advisory Committee would be asked to consult with industry and to develop a more permanent solution to this issue to achieve the intent of the September 2006 Rule Change and provide appropriate incentives for plant availability.

It is noted that the current Rule Change proposal has been subject to extensive consultation, with the proposed refund calculations being developed and submitted to the Independent Market Operator by the Reserve Capacity Refund Mechanism Working Group (“Working Group”).

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

The OOE supports the statements made by the Independent Market Operator (in the Rule Change Notice), with respect to the impact of the Rule Change on the Wholesale Electricity Market Objectives.

In support of these comments it is noted that the Working Group considered several alternatives in developing the proposed Rule Change, with agreement that the current proposal best reflected the agreed intent of the Reserve Capacity Refund Mechanism as follows:

- The level of refunds for each outage should be set at the appropriate level to provide the incentive for generators to meet their Reserve Capacity Obligations.
- There must be a very strong incentive on peaking plants to deliver capacity when required (because there may be no other spare generation capacity available on the system) but these plants may only be called on to run for a few hours each year.
- There must be a strong incentive to encourage capacity providers to be fully available at peak times, but there must also be incentives for good performance at other times of the year when scheduled outages reduce the available system capacity.
- While refund levels should be high enough to encourage good operational performance, they should not be so high as to deter investment or force capacity providers to include an excessive risk component into their pricing.

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

Not applicable.

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

Not applicable.
