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## Wholesale Electricity Market – Rule Change Proposal Submission Form

### RC\_2007\_08 CALCULATION OF RESERVE CAPACITY REFUND

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#### Submitted by

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#### Submission

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

##### Background

Following on from the work of the Reserve Capacity Refund Working Group, the IMO proposes a rule change to clarify the wording in the Market Rules that describes the Reserve Capacity Refund Mechanism.

The first change is that a differentiation is made between business days and non business days, (weekends and public holidays). The IMO views that the maximum demand on non business days is generally well below that on adjacent business days so the impact of any outage is likely to be less severe and for this reason, it is proposed that a different refund rate apply to peak trading intervals (8 am to 10 pm) on non-business days.

The second change is that a distinction is made between the first and second halves of the Hot Season. The IMO views that because of school and public holidays, there is a significant difference in peak demands that occur in December and January and those occurring in February and March and therefore proposes that this be reflected by having different refund rates apply to the first and second halves of the Hot Season.

##### Synergy Position

As a retailer with ongoing commitments to our customers, It is essential to Synergy, and in turn to our customers, that Market Generators are incentivised to deliver capacity when required and that

the Market Rules operate to encourage capacity providers to be fully available at peak times. Synergy also sees a clear need for the rules to incentivise ongoing performance at other times of the year, particularly when scheduled outages constrain the available system capacity. Refund levels should be set at a level that provides the appropriate incentives for generators to meet their Reserve Capacity Obligations. Synergy sees the IMO's proposed changes as achieving this outcome. Synergy also notes that the Rule Change Proposal more closely reflects the original intent of the refund mechanism, as discussed at the time the market rules were originally contemplated.

From a process perspective, Synergy was a representative on the Working Group and agreed to the overall terms of reference for this group. The Working Group was specifically requested to:

- Assess and propose key drivers for the Capacity Refund Mechanism.
- Assess, amend and propose a set of Outage Scenarios to be used for a quantitative analysis.
- Conduct quantitative analysis of Outage Scenarios against the Capacity Cost Refund mechanism alternatives.
- Complete preliminary qualitative analysis of each Capacity Refund mechanism alternative.
- Assess and propose an alternative Capacity Refund mechanism.
- Prepare a report proposing a revised refund arrangement, by end April 2007.

It is Synergy's view that the Working Group effectively undertook each of the tasks identified above and that Synergy was adequately engaged in determining an appropriate outcome. As such, Synergy's views were taken into consideration both during the formulation of the report on this issue and in the crafting of the subsequent Rule Change Proposal.

Synergy therefore supports this Rule Change Proposal.

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

The objectives of the WEM are clearly enunciated as:

- 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; and
- e. to encourage the taking of measures to manage the amount of electricity used and when it is used.

Synergy considers that the Rule Change Proposal will promote the reliable production and supply of electricity in the SWIS. This is consistent with the WEM objectives outlined in point (a) above.

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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**

Synergy does not anticipate that this change will require any modifications to existing Synergy systems and processes.

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

Nil