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Dear Allan

WEM Rule Change Proposal RC 2008 20 – Demand Side Management – Operational Issues

Thank you for the opportunity to provide comments on Rule Change Proposal RC 2008 20 “Demand Side Management – Operational Issues”. This letter sets out the view of Alinta Sales Pty Ltd (Alinta).

The proposed change

On the 16th of July 2008 the Independent Market Operator (IMO) submitted RC 2008 20. The IMO proposed a number of changes to the way that Demand Side Management (DSM) is treated within the Market Rules, including:

- **Testing requirements:** The IMO proposed that all DSM facilities should undergo a physical test to prove their ability to deliver on capacity credit obligations. Currently, there is only a requirement to test the communication systems to prove that a demand response would be achieved if called by System Management.
- **Notification time for dispatch:** The IMO proposed that the maximum notification required for activating DSM should be capped at four hours.
- **Availability Class 1:** The IMO proposed that DSM should not be allowed to register in availability class 1.
- **Reserve Capacity Determination:** The IMO proposed to formalise the methodology for determining the amount of DSM available. The proposed methodology is based around each load's metered reads in each of the 8 consecutive intervals with the highest system demand in each of the four months of the previous year's hot season.
- **Periods when DSM is to be available:** The IMO proposed that DSM should be available to be called upon on business days between noon and 8pm. Furthermore, DSM providers would not have an obligation to provide the service for more than 2 consecutive days.
- **Reserve Capacity Testing:** The IMO proposed that DSM providers should be subjected to a similar mandatory testing regime as applies to scheduled generators at the moment.

Alinta's view

Alinta supports the work of the working group and the IMO to bring more clarity to the rules surrounding DSM. This will present retailers and their customers with more certainty around contractual arrangements relating to DSM provision. This should encourage competition in the provision of DSM services.

Although Alinta does not support all parts of the proposal as it stands at the moment we believe that on balance it represents an improvement on the current market rules and should therefore be progressed further through the rule change process. Alinta has set out some specific observations below.

Alinta is concerned that the proposal to introduce mandatory, physical testing of DSM facilities' ability to provide a demand reduction will effectively exclude many potential DSM providers. This is because the cost associated with lost production as a consequence of having to follow through with a physical demand reduction on a regular basis for some customers will outweigh the benefits that participation in a DSM program may provide. This has the potential for limiting the pool of potential DSM providers with flow on effects on the long term costs of producing electricity within the SWIS. Alinta would therefore prefer to retain the current approach of limiting the testing to communication systems only.

Alinta understands and agrees with the IMO's rationale for excluding DSM from registering in availability class 1. Alinta seeks clarification from the IMO as to when this change will apply. The time table in the current proposal has this part of the proposal down as commencing "as soon as practicable".

Alinta agrees that a methodology for establishing the amount of DSM to be delivered and a methodology for measuring compliance is required. However, Alinta is not convinced that the proposed methodology based around actual demand during 32 trading intervals in the previous hot season will deliver a satisfactory outcome. For example, a load that is called to provide DSM in one hot season may by virtue of complying with its obligations significantly reduce its potential for participating in the following year's DSM program as it would have recorded very low readings during some, or potentially all of the relevant 32 intervals. Other events, such as Force Majeure, prolonged periods of maintenance may also influence the outcome. Alinta suggests there needs to be some allowance for subjective substitution of data in these circumstances to deliver the intent of the proposed changes.

Dispatch groups provide System Management with flexibility in terms of load quantity available. For larger facilities to continue to be willing to participate in DSM, they require certainty that if they are called they will be dispatched in full, unless they indicate the capacity to be part-Dispatched. This part of the proposal requires further consideration.

The request for estimates of available capacity to be provided to System Management is not clear. Alinta seeks confirmation that the capacity is determined by the process as set out under the Reserve Capacity Mechanism, i.e. that the load level is reduced in comparison to the Relevant Demand set the previous year, and as such Planned Outages will not alter the available capacity.

In addition to the issues that have already been addressed in the proposal Alinta considers that the rules relating to DSM programs may need further consideration. In particular, Alinta considers that retailers should be allowed to cover their capacity credit obligations linked to a DSM program by utilising a pool of customers. Furthermore, the rules should allow retailers to effectively over-subscribe their DSM programs and select customers from the pool of available loads when required to reduce load. This should benefit system security by further increasing the probability of required

DSM response being delivered. It would also add to the retailers' risk mitigation tools, with positive flow on effects on competition in the provision of the service.

For the reasons set out above, Alinta considers the change proposal has the potential to improve achievement of market objectives (a) and (b)¹. Alinta also considers the proposal has a potential to adversely affect the ability to achieve market objective (d). On balance, Alinta supports further progression of this proposal, with the suggested amendments to the proposal as outlined above.

IT systems and cost implications

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

Time required for implementation

Alinta does not require any specific lead time to allow implementation of the proposal.

Please call me on 08 9486 3313 to discuss any of the issues raised in this letter in more detail if necessary.

Yours sincerely



Kristian Myhre
Manager Market Analytics
Alinta Sales Pty Ltd

¹ 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"