Wholesale Electricity Market
Rule Change Proposal Submission Form

< RC_2008_20> < Demand Side Management – Operational Issues>

Submitted by

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

Synergy has appreciated the opportunity to participate within the DSM Working Group which has been tasked with reviewing the arrangements for the participation of DSM within the Reserve Capacity Mechanism.

Synergy in the main supports this rule change proposal. However, we identify some significant concerns with regards to the implementation timeline. In particular, Synergy objects to the effective retrospectivity of the application of this rule change in that in some instances the amendments will apply to capacity years that have already been capacity credited and for which Market Participants, including Synergy, have already undertaken substantial commercial contracting to meet these obligations. The retrospective application of these amendments will impact the structure and commerciality of Synergy's existing contracts and will therefore prejudice Synergy's commercial position and that of our contractual counterparties. These amendments also have the potential to impact on Synergy's ability to meet overall capacity obligations for the capacity years for which capacity credits have been allocated.

Synergy elaborates on our specific concerns below.

Clause 4.8.3. Commencing immediately, proposed changes to this clause would mandate that Curtailable Loads have the same availability as the DSM Program. Problematically, some of

Synergy's existing customers, already under contract, cannot meet this requirement for a variety of operational reasons and run a high risk of withdrawing loads. Many of these customers may have declined participation if a 48-hour minimum was required at the time of contracting (the DSM Program for Synergy is currently certified for 48 hours). Synergy therefore requests additional information from the IMO on how this rule change would be applied to existing contracts and, to avoid unfair consequences to existing customers, Synergy requests that proposed changes to clause 4.8.3 in no event commence before 2010/11.

Clause 4.11.4A. Newly enacted, this proposal would require DSM capacity not to exceed Relevant Demand. Although changes would not officially apply until 2011, Synergy is concerned with the risk of informal application in 2008/9. Synergy therefore requests clarification from the IMO that it will not informally apply clause 4.11.4A prior to 2011, and specifically, confirmation that the IMO will not reject capacity credits (exceeding the Relevant Demand amount) that Synergy attempts to register before 2011.

Clause 4.26.2(C). Relevant Demand is defined here as a customer's median load measured over the 32 Trading Intervals in the preceding Hot Season with the highest aggregate system demand for half-hour periods. Synergy raises the following points:

- As the Market Rules already provide a mechanism for determining refunds, Synergy cannot accept a change in the way these refunds are calculated (i.e., by including Relevant Demand) unless the IMO can make a compelling case that current arrangements are ineffective.
- We view that the proposal should contain a "business-as-usual" filter, excluding readings during Trading Intervals when an entity was called upon for curtailment or its output was curtailed due to plant outage or maintenance. (Otherwise, atypical readings would skew calculations, reducing relative demand for the plant and underestimating the DSM delivered to the market.) To fully evaluate this proposal, Synergy requests that the IMO provide a list of the 32 highest system load half-hour periods from December to March 2007.
- Synergy notes that any changes should be introduced in 2010/11, not in 2008/9, as Synergy's customer contracts were drafted in accordance with current market rules and without reference to the concept of Relevant Demand.

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

Certain proposed changes, identified as problematic above, frustrate the Market Objective of promoting an economically efficient supply of electricity. Changing existing rules midcourse, without allowing time for extant contracts to be renegotiated, creates unnecessary burdens and economic inefficiencies to the market.

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3. Please indicate if proposed changes will have any implications for your organisation (for example changes to your IT or business systems) and any costs involved in implementing these changes.

The potential costs to Synergy's business systems, resulting from the above concerns, are unacceptably high. Synergy's existing contracts would need renegotiating under the proposed changes, which is time-consuming and expensive. These inequitable costs can be ameliorated by allowing sufficient time for rule changes to be incorporated into business practices before these changes go into effect.

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

Per the comments above, Synergy needs at least until 2011 before implementing proposed changes to clauses 4.8.3, 4.11.4A, and 4.26.2(C).