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## Wholesale Electricity Market Rule Change Proposal Submission Form

### RC\_2008\_34: Funding of SRC in the event of capacity credit cancellation

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#### Submitted by

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#### Submission

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

NewGen Power does not support the proposed rule change.

NewGen Power considers the Market Rules currently expose Facilities, particularly Scheduled Market Generators, to significant cost and risk associated with any Forced Outage, namely;

- a) Capacity Refunds (CR's);
- b) Downward unauthorised deviation payments (DDAP's)
- c) Exposure to purchasing energy through the Short Term Energy Market (STEM) for bilateral commitments, where the Market Generator does not have spare generation capacity in a portfolio of generation.

Consequently, NewGen Power notes that the likely impact to a Market Generator of a Forced Outage is not just Capacity Refunds and possible loss of Security Deposit for new generators, but significant costs in the STEM for sourcing replacement energy for bilateral contracts. NewGen Power submits the quantum of risk associated with c) above is significant for an extended Forced Outage, and certainly achieves adequate incentive for Market

Generators to maintain reliable supply. NewGen recognises that not all Facilities may be bilaterally contracted or Market Generators, however, the vast majority (greater than 90%) of new and existing Facilities with Capacity Credits in the WEM are bilaterally contracted Scheduled Market Generators.

NewGen Power submits that the imposition of an additional penalty on generators for Forced Outages as proposed by the rule change proposal will not achieve outcomes consistent with the Wholesale Market Objectives. In particular, NewGen Power is concerned the IMO has not adequately considered the medium to long term impacts of the proposed rule change on investment in new generation, viability of existing Scheduled Market Generators and the inevitable increased cost to end users of electricity.

NewGen Power notes that if the proposed rule change is accepted, it will result in significant transfer of risk and cost from Market Customers to Market Generators. This was never originally anticipated or considered in the design of Market Rules or by those making large investment decisions in new Facilities. As a result, NewGen Power believes new investors will view regulatory risk associated with market change as a large consideration when seeking and obtaining finance for future projects.

NewGen Power believes that the proposed rule change is a significant change to the design of the Market Rules and as such, SRC mechanisms should not be considered in isolation, but rather be considered in a broader review of changes to the Reserve Capacity Mechanism and Market Rules.

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

### ***a) to promote the economically efficient, safe and reliable production and supply of electricity and electricity related services in the South West interconnected system;***

NewGen Power submits that the proposed rule change will not result in economically efficient supply of electricity since;

- Market Generators will ultimately pass through the potential cost of triggering SRC to retailers through increased insurance costs (if this is possible) or increased project returns.
- Investment in capital intensive, long lead time generation equipment will be discouraged due to the increased risk of triggering SRC. Consequently, there is likely to be a shift to lower efficiency, higher short run marginal cost plant.
- Entry of new competitors among generators will be discouraged (refer below).

- Incentive provided under the current Market Rules for retailers to procure the lowest cost SRC (most likely Demand Side Management) is lost.
- b) to encourage competition among generators and retailers in the South West interconnected system, including by facilitating efficient entry of new competitors;**

NewGen Power submits that the proposed rule change will not facilitate entry of new competitors among generators since;

- Smaller new entrant generators may be discouraged from entering the market due to the significant financial consequence if the IMO was to determine their project triggered a SRC event.
- Financing for new projects will become more problematic due to allocation of risk associated with triggering a SRC event. It is not clear whether insurance products are available to cover such an event.
- Regulatory risk signified by acceptance of the proposed rule change will affect financing of new projects.

**c) to minimise the long-term cost of electricity supplied to customers from the South West interconnected system; and**

NewGen Power submits that the proposed rule change will increase the long-term cost of electricity supplied to customers since;

- Demand side management (DSM) is likely to be the most effective way of procuring SRC, however the proposed rule change discourages this approach and will increase the cost of procuring DSM.
- New facilities will pass on the cost of risks associated with SRC to retailers. This pass through of cost is unlikely to be efficient.

**d) to encourage the taking of measures to manage the amount of electricity used and when it is used.**

NewGen Power submits that the proposed rule change will discourage the taking of measures to manage the amount of electricity used and when it is used as Market Customers will have reduced incentive to manage demand when SRC is triggered as a result of an extended Forced Outage.

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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 in implementing these changes.**

The proposed change will have minimal implications to NewGen's IT and business systems.

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

NewGen will have adequate time required to implement the proposed rule change.