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Report to  
**The Independent Market Operator**

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**Review of Rule Change 34 – Issues Arising from the  
Public Forum 28 April 2009**

11 May 2009



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## **TABLE OF CONTENTS**

<b>1</b>	<b>INTRODUCTION</b>	<b>1</b>
<b>2</b>	<b>PUBLIC WORKSHOP 28 APRIL 2009</b>	<b>3</b>
2.1	Summary of discussion	3
<b>3</b>	<b>ANALYSIS OF ISSUES</b>	<b>4</b>
3.1	Causer pays	4
3.2	Insurance implications of the SRC exposure on generators	4
3.3	Extended Forced Outages	5
3.4	Allocation of SRC Costs to generators	5
3.5	Capacity Pricing	5
3.6	Related matters arising	6
3.7	Future Reviews	8
<b>4</b>	<b>CONCLUSIONS</b>	<b>10</b>
	<b>APPENDIX A PUBLIC WORKSHOP AGENDA</b>	<b>11</b>
	<b>APPENDIX B APPENDIX B NOTES FROM PUBLIC WORKSHOP</b>	<b>13</b>

## 1 INTRODUCTION

This report discusses a review of the Draft Rule Change Report for RC\_2008\_34 as discussed at a Public Workshop on 28 April 2009.

The Rule Change was originally proposed with the intention to have the cost of Supplementary Reserve Capacity (SRC) funded, within limits, by generators that have their Capacity Credits reduced, suffer extended Forced Outages of power plant or experience delayed commissioning of new plant of severity sufficient to require SRC. The remaining SRC costs, if any, would then be distributed among Market Customers through the Shared Reserve Capacity Cost payments. The maximum exposure of generators was thereby increased from total refund of Capacity Credit payments (Capacity Cost Refunds) in a Capacity Year up to a level potentially twice the Capacity Credit payments received in respect of the Capacity Year. This exposure is made up of the refund of Capacity Credit payments under Rule 4.26.1 and its Refund Table plus the cost of funding the SRC up to the level of the Capacity Credit payments (for a Capacity Year).

During the first submission period, this proposal was opposed by Verve in its entirety as it considers that the rules already provide sufficient incentives. Griffin Energy opposed the rule change with regards to the extended forced outage scenario on the basis of a claim that this was a new uninsurable impost on the Bluewaters project. The Bluewaters units are not expected to meet their planned commissioning date and therefore there is an increased risk of the need for SRC and additional costs imposed on Griffin Energy. Alinta in particular and most other market participants who submitted during the first submission period were supportive of the objectives of the Rule Change, although there is a consensus that the scope of the changes needs further attention to minimise the risk of unintended consequences.

This report summarises the discussion presented at the Public Workshop on 28<sup>th</sup> April 2009, analyses the issues raised and concerns expressed. It recommends that the current formulation, outlined in RC\_2008\_34, not proceed and the issue be referred back to an industry Working Group to consider the issues more broadly with a focus on:

- Estimating the expected incidence of calling for SRC – *is the stated 1 in 10 year incidence a realistic quantified assessment or an indicative level based on 10% probability of exceedance (POE) peak demand incidence ?*
- Considering at what level of reserve margin should SRC be requested given that it is intended only to cover extreme events when supply reliability targets are not likely to be satisfied – *is it necessary to maintain the normal reserve margin under these extreme circumstances or should only the expected capacity deficit be covered?*
- Whether the distribution of SRC costs depending on specific long duration outages could disrupt the reporting of expectations about plant outages – *for example, under the current proposal might it not be self-interested for a generator not to indicate that an outage*

*will be lengthy so as to discourage IMO from assessing that SRC is required and reducing its exposure to SRC cost?*

- The level of performance that the Reserve Capacity Mechanism is intended to deliver in terms of risk management for customers – *is it reasonable for generators to have to insure for the cost of the 1 in 10 year exposure or should this cost be imposed on the market participants directly through the funding of SRC at the agreed level as considered above?*
- Should the Capacity Payment recover the expected level of Capacity Cost Refunds based on benchmark performance? This should be a factor in the determination of the Maximum Reserve Capacity Price.
- If the current proposal or similar arrangement is confirmed, on what basis should the share of SRC cost be distributed among the defaulting generators and the Market Participants generally? How should this be decided?
- Considering the extent to which the Capacity Cost Refunds compensates retailers for the higher STEM costs they are exposed to in the event of a capacity shortage. *The argument should be tested as to whether in fact a bilaterally contracted retailer is protected from the increased STEM costs which are actually mostly borne by the generators. If this is the case then it may be arguable that the Capacity Cost Refunds should first fund SRC before imposing any SRC costs on generators.*
- Should there not be a maximum cost for SRC assessed so that the IMO is not obligated to procure the SRC if the offered prices exceed this cost? *This would ensure that SRC cost is commensurate with its economic benefits and thereby remove the unlimited exposure to SRC costs imposed on retailers.*

In view of the evidence that these matters are quite fundamental to the design of the Reserve Capacity Mechanism and the management of SRC, it is recommended that a new process examine these broader issues before finalising a rule change which imposes a significant portion of SRC costs on defaulting generators.

## **2 PUBLIC WORKSHOP 28 APRIL 2009**

A Public Workshop was held on 28 April 2009 to discuss the Draft Rule Change Report for RC\_2008\_34. The agenda was as shown in Appendix A.

### **2.1 Summary of discussion**

This section presents a summary of the discussion at the workshop conducted on 28 April 2009. The draft notes provided in Appendix B were prepared by the IMO and edited by Ross Gawler of MMA.

The key issues discussed included:

- the risk coverage of the Reserve Capacity Mechanism and whether the risk beyond 1 year in 10 as managed through SRC can be reasonably allocated to the generators causing that level of capacity loss on such an infrequent basis;
- the rejection of causer pays for extreme events that require SRC. It was argued that the causer for extreme events is the retailer, not the generator due to the nature of the Reserve Capacity Mechanism; and
- the statement by Griffin Energy that it was not able to insure the exposure to SRC cost for late commissioning at the current stage of its (Bluewaters) project .

### **3 ANALYSIS OF ISSUES**

The following significant issues were raised at the Workshop. These are briefly discussed in the sub-sections below.

#### **3.1 Causer pays**

There was a general agreement among the participants that causer pays is a good principle but workshop participants disagreed as to who is the causer. This interpretation relates to the nature of the Reserve Capacity Mechanism itself. Ultimately it was the view of some participants that it is the customer who causes the peak demand that requires capacity, however the inability to deliver capacity when it has been traded via the Reserve Capacity mechanisms can cause additional costs to the market. The amount of Reserve Capacity that is required depends on the reliability of power generation plant, with lower reliability requiring greater Reserve Capacity. The question is then who is under-writing what? It may be argued that the current market prices capacity at the cost of liquid fuelled gas turbine plant but without any premium for performance beyond industry norms of some 90% - 95% availability, and some 97% - 99% reliability. The implication of these arrangements is that the Market Customer is to carry the risk beyond that through demand-side response which may be delivered through the SRC mechanism or may be realised as higher energy costs or load shedding.

The question was raised at the Workshop as to whether this Rule Change Proposal shifts that responsibility for managing the cost of extreme supply imbalance from Market Customers through the Shared Reserve Capacity Cost back to Market Generators as guarantors of almost fully reliability capacity with SRC back-up. Indeed it is apparent that this is what the Rule Change Proposal would accomplish in part, to the extent that the defaulting generators fully fund the SRC. The Rule Change Proposal does provide for the SRC cost exposure on generators to remain limited with retailers still exposed to unlimited SRC costs in principle.

#### **3.2 Insurance implications of the SRC exposure on generators**

A consistent theme which has been presented by Griffin Energy, in the context of its Bluewaters Project and future expansion is that the exposure to SRC costs is substantial and cannot be insured. MMA considers that this may be more a matter of timing rather than a long-term issue, but nevertheless it is clearly a matter of concern to Griffin Energy. Even if it is an insurable exposure it represents an additional cost on power generation that would eventually be passed through to Market Customers. This higher cost to Market Customers would be offset by the reduced exposure to SRC costs that is currently carried by Market Customers under the current rules. Whether or not Market Customers are able to insure this exposure was not made clear. Synergy implied that it is regarded as an occasional impost that they would be able to carry on a shared basis among Market Customers as long as it was an infrequent event. The difference with the new proposal is

that generators would need time to arrange the insurance and to change their bilateral contracts to pass the costs on to Market Customers. They may not be able to pass on those costs to Market Customers in current bilateral electricity supply contracts.

### **3.3 Extended Forced Outages**

The two reasons why SRC costs may be imposed upon generators are related to cancellation of Capacity Credits requested by generators or by extended Forced Outages which may be caused by delayed commissioning of new plant or type faults or major failures of existing plants. These types of events are deemed more likely to prompt the commitment to SRC than a series of short failures that happen to coincide and which occur without any significant notice. However this approach may create perverse incentives for participants to play down the risk of extended Forced Outages so as to discourage the IMO from seeking commitment to purchase of SRC and thereby reduce generators' exposure to SRC costs.

### **3.4 Allocation of SRC Costs to generators**

Verve Energy considers that the current arrangements provide sufficient incentive for generators to manage their plant availability and that the Capacity Cost Refunds should first be used to fund SRC costs as they would if no further rule changes are made.

Griffin Energy supports the contribution to SRC costs when Capacity Credits are reduced but not for extended Forced Outages.

Thus the key question is how much of the SRC costs should be allocated back to defaulting generators in respect of available capacity. The coal fired base load generators Verve Energy and Griffin Energy consider that they already bear significant risk under the bilateral contracting regime to maintain plant reliability and to bring new capacity into service on time without an additional financial risk for SRC funding. Thus they do not support the view that the Rule Change Proposal would enhance market efficiency.

### **3.5 Capacity Pricing**

The risk coverage of the Reserve Capacity Mechanism was an important issue raised at the Workshop. Since the price for capacity is based on the fixed cost of a single liquid fuelled gas turbine which cannot be perfectly reliable, the implication is that generators are not individually providing perfect reliability and therefore should not be exposed to SRC cost, except where they withdraw capacity within the lead time for acquiring new replacement capacity. If they were expected to underwrite the impact of plant outages it would be argued that the insurance cost needs to be added to the capacity payments to reflect the reliability of the service that is provided.



On the other hand, perhaps the expected loss of capacity payments at say 3% forced outage rate<sup>1</sup> would add 4.41% to the Capacity Cost. This would be added on to the Capacity Payments to reflect the expected Capacity Cost Refunds so that a plant that meets good industry practice achieves its recovery of fixed costs over the long term.

This approach would require that:

- Capacity Cost Refunds and SRC costs would be distributed under the Shared Reserve Capacity Cost arrangements;
- The expected cost of Capacity Cost Refunds for benchmark performance would be paid by Market Customers as part of the Capacity Payment so that if all plants achieved benchmark performance, the net average cost to Market Customers would be the long-run marginal fixed cost of capacity of liquid fuelled peaking plant.

The SRC costs and the Capacity Cost Refunds would continue to be treated independently and Market Customers rather than the IMO would provide the cash flow management for timing differences.

### **3.6 Related matters arising**

Synergy has stressed in its submission, received during the first round, that the use of the SRC process has the potential to place a substantial financial burden on market participants and in turn, end-use customers. The original market design contemplated SRC as being a very rare event. Synergy therefore strongly supports a review (as outlined in RC\_2008\_28) following any call for SRC which assess the appropriateness of the SRC mechanism and seeks to make improvements for any future applications of SRC.

Out of this contribution and the Workshop discussion arise a number of related issues that would need to be considered to some extent before allocating SRC costs to generators:

- Optimising the volume of SRC purchased with respect to its costs and benefits; and
- SRC incidence in relation to the basis of initiation.

These are discussed in the following sections.

#### **3.6.1 Optimising volume of SRC with respect to its cost and benefits**

- How can the acquisition of SRC in terms of cost and volume be related to the exposure to high energy costs and load shedding so that Market Customers and/or generators exposure to SRC costs is commensurate with the associated market costs and risks of inadequate capacity.

In terms of volume, is it necessary to acquire SRC to restore the full 8.2% capacity reserve margin? Might it be sufficient to cover the expected capacity deficit based on the prevailing assessment of the reliability of remaining plant and the expected level of

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<sup>1</sup> An increased value of 4.45% has been calculated allowing 3% forced outage rate, 4% maintenance rate using the formula  $1/(1-3\% * (1-4\%) * 146.5\%)-1 = 4.41\%$ . The ratio 146.5% is the average rate of capacity refunds over the year assuming outages could occur at any time in the year.

capacity outage at the peak. For example if there are 40 units with an average capacity of 100 MW and a forced outage rate of 3%, the expected capacity on outage at the peak would be 3% of 40 \* 100 MW = 120 MW. It might be worthwhile looking at say the 80% outage level based on the distribution of unit sizes and reliability. This calculation suggests that the full reserve level may not need to be covered under these extreme conditions, particularly if SRC costs are high.

In terms of SRC cost, the marginal SRC cost should be commensurate with the market marginal costs that would occur if the SRC volume was reduced at the margin. This calculation is not easy to make because it depends on a number of uncertainties and cost values that are continually changing and not necessarily observable to the IMO. However, when substantial SRC is acquired in the future, it may be worth reviewing what market based observations could be used to confirm that the acquisition was economic. Indicators could be derived from power market models that calculate the increased operating costs and load at risk associated with changes in available capacity. A full economic model also needs to consider the demand-side management (DSM) options and procedures, the nature of remaining load at risk after DSM actions are taken, the actual load shedding policies which allocate the load to be shed to particular classes of customers, and its customer value. This type of analysis would assess what level of reserve capacity should be covered as a function of its cost so that an economic acquisition of SRC is made.

### 3.6.2 Frequency of calling SRC

- How often will SRC be acquired and utilised?

It has been said that SRC should be called about 1 year in 10, presumably based on the frequency of 10% POE peak demand. There are two aspects: the calling for SRC before the summer and the utilisation of SRC based on operating conditions on the peak days. This one year in 10 for calling SRC may only be indicative because the establishing of SRC actually has no relationship to the incidence of 10% POE peak demand, since it must be assumed that the 10% POE peak demand will occur in the forthcoming summer period. The probability of activating it may be more closely associated with the incidence of the 10% POE peak demand. The incidence of calling SRC would depend on the following variables:

- The reliability of existing generating plant which determines the risk of capacity shortfall
- Whether the planned reserve margin is consistent with the prevailing plant reliability. If the planned reserve margin is too low, then the frequency of calling SRC would increase.
- The accuracy of peak demand forecasts three years in advance when capacity is committed. Any under-forecasting of peak demand would increase SRC incidence.
- The extent to which scheduled maintenance can be avoided in the peak season. If there is a back-up of scheduled maintenance then some smaller units might be

maintained in the summer period of necessity. This does not appear to be a significant factor at the moment.

- The rate of demand growth and the exposure to new entry commissioning which is deemed to provide a greater opportunity for capacity shortfall than arises from existing plant.
- The reserve coverage that is provided by the SRC. The calling of SRC may be reduced if the full 8.2% reserve coverage is not provided.

Developing a quantified assessment of these factors would assist the IMO to develop economically based policies and Rule Change Proposals and would inform market participants as to their risk exposure to additional costs. This would assist in lowering the cost of insurance to the extent that the insurance industry considered the analysis to be actuarially valid.

### **3.7 Future Reviews**

These discussions have identified a number of matters that should be considered in future reviews of the Reserve Capacity Mechanism and SRC processes to ensure that the Wholesale Electricity Market operates at maximum efficiency. MMA recommends that the allocation of SRC costs be referred back to an industry Working Group with broad representation to consider the issues more broadly with a focus on:

- Estimating the expected incidence of calling for SRC – is the stated 1 in 10 year incidence a realistic quantified assessment or an indicative level based on 10% POE peak demand incidence ?
- Considering at what level of reserve margin should SRC be requested given that it is intended only to cover extreme events when supply reliability targets are not likely to be satisfied – is it necessary to maintain the normal reserve margin under these extreme circumstances or should only the expected capacity deficit be covered?
- Whether the distribution of SRC costs depending on specific long duration outages could disrupt the reporting of expectations about plant outages – for example, under the current proposal might it not be self-interested for a generator not to indicate that an outage will be lengthy so as to discourage IMO from assessing that SRC is required and reducing its exposure to SRC cost?
- The level of performance that the Reserve Capacity Mechanism is intended to deliver in terms of risk management for customers – is it reasonable for generators to have to insure for the cost of the 1 in 10 year exposure or should this cost be imposed on the market participants directly through the funding of SRC at the agreed level as considered above?
- Should the Capacity Charge recover the expected level of Capacity Cost Refunds based on benchmark performance? This should be a factor in the determination of the Maximum Reserve Capacity Price.

- If the current proposal or similar arrangement is confirmed, on what basis should the share of SRC cost be distributed among the defaulting generators and the market participants generally? How should this be decided?
- Considering the extent to which the Refunded Capacity Payments compensates retailers for the higher STEM costs they are exposed to in the event of a capacity shortage. The argument should be tested as to whether in fact a bilaterally contracted retailer is protected from the increased STEM costs which are actually mostly borne by the generators. If this is the case then it may be arguable that the Refunded Capacity Payments should first fund the SRC before imposing any SRC costs on generators.
- Should there not be a maximum cost for SRC assessed so that the IMO is not obligated to procure the SRC if the offered prices exceed this cost? This would ensure that SRC cost is commensurate with its economic benefits and thereby remove the unlimited exposure to SRC costs imposed on retailers.

In view of the evidence that these matters are quite fundamental to the design of the Reserve Capacity Mechanism and the management of SRC, it is recommended that a new process examine these broader issues before finalising a rule change which imposes a significant portion of SRC costs on defaulting generators.

## 4 CONCLUSIONS

The contributors to the discussion about this Rule Change Proposal have cast doubt on the strength of the arguments in support of the Rule Change. The dissenting market participants have presented the view that the adverse financial impacts on some generators will increase costs to consumers and discourage some forms of new entry. It is apparent that the proposed Rule Change Proposal does not have the full support of the market participants and that it has raised fundamental questions about the purpose and implementation of SRC and the distribution of its costs among market participants. Whilst it is clear that there is support that SRC costs should be allocated to generators that have reduced their capacity credits (at short notice), it is not widely supported that this should apply for extended Forced Outages and that SRC should be funded from additional payments from generators rather than from the Capacity Cost Refunds in the first instance.

A number of detailed matters should be considered further by an industry Working Group with broad representation before finalising this proposed Rule Change. In particular:

- The expected incidence of calling for SRC;
- The level of reserve margin for which SRC should be requested;
- The defining events that determine the distribution of SRC costs;
- The level of performance that the Reserve Capacity Mechanism is intended to deliver and for which generators are responsible;
- The economic distribution of SRC costs among Market Generators and Market Customers;
- The extent to which the Capacity Cost Refunds should first fund the SRC before imposing any specific SRC costs on generators; and
- An assessment process that determines the SRC cost/volume that maximises economic efficiency based on prevailing market conditions.

Accordingly, MMA recommends that:

- Rule Change RC\_2008\_34 should not proceed pending a broader review of the framework for SRC provision and the management of extreme capacity shortages on an economic basis. This would assist in limiting the exposure to SRC costs and provide a more robust framework for risk assessment by market participants.
- At the very least the Clauses 4.28.4(aA) (iii) and 4.28.4B that pertain to extended Forced Outages be removed pending a review of the allocation of SRC costs to generators at a level which would be acceptable and insurable.

## APPENDIX A PUBLIC WORKSHOP AGENDA



**Independent Market Operator**  
**RC\_2008\_34: Funding of SRC in the event of Capacity Credit**  
**cancellation**  
**WORKSHOP**

### Agenda

<b>Location:</b>	City West Function Centre 45 Plaistowe Mews West Perth
<b>Date:</b>	Tuesday 28 April 2009
<b>Time:</b>	1.00pm – 3.00pm

Item	Subject	Responsible	Time
1.	<b>WELCOME</b>	<b>IMO</b>	5 min
2.	<b>ATTENDEE INTRODUCTIONS</b>	<b>All attendees</b>	5 min
3.	<b>WORKSHOP PROCESS/STRUCTURE</b>	<b>Chair</b>	5 min
4.	<b>BACKGROUND</b>	<b>IMO</b>	15 min
5.	<b>WORKSHOP DISCUSSION</b> a) Issues directly related to RC_2008_34 <ul style="list-style-type: none"> <li>i. Intent of Rule Change</li> <li>ii. Amending Rules</li> <li>iii. Extended forced outage (definition and procedures)</li> <li>iv. Capping Costs</li> </ul> b) Issues extraneous to RC_2008_34 <ul style="list-style-type: none"> <li>i. Capacity swapping/replacement to mitigate</li> </ul>	<b>Discussion</b>	80 min

Item	Subject	Responsible	Time
	<p style="text-align: center;">SRC requirements</p> <ul style="list-style-type: none"> <li>• Potential to fast track short term certification</li> <li>ii. Use of Capacity Cost Refunds to fund SRC in first instance</li> <li>iii. Rewarding fast response plant</li> <li>iv. Rewarding secure peaking plant with multi fuel availability</li> </ul> <p>c) Process from here</p>		
6.	<b>WORKSHOP WRAP UP</b>	<b>Chair/IMO</b>	10 min

## APPENDIX B APPENDIX B NOTES FROM PUBLIC WORKSHOP

The following table is an edited version of notes taken by IMO during the Public Workshop. This version has not been confirmed with participants and some comments may have been misunderstood.

1.	<p><b>GENERAL DISCUSSION</b></p> <p><b>1.1 Opening discussions on the process going forward</b></p> <p><i>Q: What is the process from here?(Griffin)</i></p> <p>The IMO stated the published Rule Change process timing and that there were no preconceived ideas or bias of the outcomes of the meeting. It was expected that the discussion would tease out the options.</p> <p>The IMO stated that they must assess any proposed Amending Rules against the Wholesale Market Objectives for consistency. The final decision on whether to approve or decline a Rule Change Proposal is made by the IMO Board, on recommendation by the IMO. The IMO noted that the IMO Board does not always accept the recommendations put forward by the IMO and has consequently requested that further input be provided via additional analysis or public workshops.</p> <p>Griffin contended that the issues relating to RC_2008_34 were key to generators and that they were concerned that IMO and MMA may already be biased.</p> <p>The IMO assured Griffin that there was no bias with regards to how it will make its decisions regarding whether or not to accept the rule change proposal as the IMO is a neutral party who is obliged by the Market Rules to make decisions to approve a change based on an assessment of the proposal against consistent criteria as outlined in clause 2.4.2 and 2.4.3 of the Market Rules.</p> <p><i>Q: What could happen today to change the outcome? (Griffin)</i></p> <p>The IMO noted that it had instructed an independent consultant (MMA) to facilitate the workshop. It would analyse any discussion from this workshop and any submissions received in the second submission period before making any recommendations. There is no pre-emption of results.</p> <p>The IMO noted that it had requested prior to this workshop by email for any questions to be raised. Only one Market Participant proposed topics for the workshop. However, the IMO viewed the Workshop as providing an ideal situation to canvas any other issues.</p> <p>The Chair then handed the meeting over to Ross Gawler from MMA.</p> <p>MMA noted that it perceived its views would help contribute to the debate surrounding RC_2008_34 as it is still a work in progress. MMA also noted that the definition of 'extended forced outage' should be discussed by the attendees.</p> <p><b>1.2 Discussion on RC_2008_34</b></p> <p><i>Discussion of the concept of "Causer Pays".</i></p> <p>The concept of "Causer Pays" was raised for discussion by the Workshop participants due to its significance in providing the basis for the proposed changes. In particular, it was noted by MMA that causers are deemed to be in the best position to avoid the cause in principle. MMA stated that SRC is a mechanism</p>
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	<p>to help fix the problem where there is insufficient capacity and in some cases the causer may not be in the best position to fix the problem (in the required time frame).</p> <p>MMA canvassed the participants view on “causer pays”, there was mixed views on this concept. MMA asked for views from the participants for and against.</p> <p>Griffin Energy noted that they are against this concept. In particular they noted that this is a Reserve Capacity Mechanism and that the expectation is that SRC will be called 1 in 10 years. Consequently Griffin Energy contended that the Market should take this into account as a cost rather than as a liability to the generator and that Retailers should pay for capacity.</p> <p>MMA noted that the South West Interconnected System (SWIS) is a small market and as a result there may be of concern about liability and the possibility that it could do serious damage to businesses (particularly smaller generators). The current Rule Change limits liability at twice the value of capacity (based on Capacity Credit payments + limited SRC costs). MMA noted that one view is that it should be capped at capacity payments.</p> <p><u><i>Do participants think that SRC should be paid out of Capacity Payments?</i></u></p> <p>It was noted by MMA that if a generator has not delivered the agreed capacity the IMO could retain the capacity payments (as forfeited) and use them first to pay for SRC costs.</p> <p>Griffin noted that the Reserve Capacity Mechanism is going to be reviewed as part of the IMO Road Map. They suggested that the IMO should not distribute Capacity Credit funds to the market until after SRC has been paid for.</p> <p>Synergy noted that an equitable capped mechanism needs to be investigated that ensures Capacity Credits are available for funding SRC.</p> <p><u><i>Is there a need to define ‘extended forced outage’?</i></u></p> <p>Perth Energy noted that there is a risk that generators may be tempted to say they are on a short outage and try to extend. This will not encourage the participant to notify the market earlier which may help the market secure other capacity e.g. SRC.</p> <p>Griffin noted that irrespective of when the Market Participant tells the market, an ‘extended forced outage’ will be considered after it happens.</p> <p>Griffin informed the Workshop that they had enquired into whether they would be insured to cover for the risk of these outages resulting in SRC being called but have been informed that insurers wont cover.</p> <p>The IMO noted that it had considered developing a specific definition for ‘extended forced outage’ to be included in the Glossary, but had decided to use the one proposed in the amendments could then be limited on just that clause.</p> <p>If the IMO was expecting SRC to last two months but had six months notice they might be able to secure other generation capacity. The IMO noted that normally these events would be at short notice and that it would be likely that Demand Side Management (DSM) would fill this need (though it is not limited to this option)</p> <p>Perth Energy stated that if there were two outages on two different pieces of equipment concurrently by the same generator, and SRC was needed to be called for both, this would not be captured as an ‘extended forced outage’.</p> <p>The IMO responded by stating that this depends on how the facility is registered, as to whether this could be considered together as a facility forced outage. There is potential for this and other conditions. The IMO queried how many contingencies</p>
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	<p>should be designed for and whether this is a real risk.</p> <p>ATCO Power questioned whether if the forced outage is due to a gas pipeline failure would the generator still considered the “causer” and have to pay SRC. The IMO responded that this would be the case and that the Market Rules specifically state there are no force majeure provisions in respect of reserve capacity.</p> <p>Griffin Energy questioned whether the causer should pay for fuel prices as well as energy prices? The IMO responded that they were not contemplating this.</p> <p>MMA noted that the concept of “Causer Pays” will probably mean that DSM will be used for SRC if the market is not flush with capacity. There are other smaller mechanisms such as diesel generators, emergency building generators that could be synchronised to the grid, to create quick build generation assets. If we are relying on DSM we need a mechanism to make DSM more attractive. MMA noted that the National Electricity Market faces a similar problem.</p> <p>The IMO stated that there are broadly 2 situations under which SRC is expected to be called:</p> <ol style="list-style-type: none"> <li>1. Precarious supply demand balance and project delays with capacity coming onto market or if IMO didn’t procure enough capacity in the first place.</li> <li>2. Catastrophic failure of plant.</li> </ol> <p>With some interest being shown in DSM coming into the market, SRC will probably use Marginal DSM.</p> <p>Griffin noted that if SRC is expected to be only a 1 in 10 year event, then the market should be set up to cope with this and it should remain a shared cost across the market.</p> <p>One participant (not recorded) noted that the risk of SRC is already built into the market framework as a shared cost. If a generator causes a change to the overall risk profile they should be paying.</p> <p>MMA stated that this rule change proposal ensures that generators take notice of plant condition and get plants started (commissioned) in a timely manner.</p> <p>Synergy stated that SRC can be called due to cancellation of Capacity Credits by generators. Synergy noted that they are happy to share costs for incorrect forecasting, and to limit costs to generators, but the retailers have no control on how the generators look after their plant. Synergy also noted that the current market situation was an unintended consequence of RC_2008_06 put forward by Trans Alta.</p> <p>Trans Alta responded to Synergy’s comments by stating that the proposed rule change is needed for transparency so generators can see what retailers needs are in the future as we have to forecast 2 years ahead. They stated that there is currently an inability to see what future loads will be and this causes problems in putting forward Capacity Credits. With respect to the rule change proposal Trans Alta had originally put forward they stated that this was in response to the problems which has been created by the boom meaning that Trans Alta could not supply Capacity Credits to market (Capacity Credits based on Net Capacity versus Gross Capacity). In response to a question from MMA, Trans Alta confirmed that they were offering credits based on net input to the market after allowing for customer load.</p> <p>Synergy responded that if Generators are allowed to cancel Capacity Credits it is the Retailers who bear the cost.</p> <p>Griffin stated that forced outages are not controllable by Generators. SRC is a</p>
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	<p>financial penalty that will not improve reliability. Capacity Credits and SRC should be two separate issues.</p> <p>The ERA questioned whether Capacity Credits represent fully underwritten capacity.</p> <p>Synergy responded that they understand that there are risks to Generators and so it can not be a 100% guarantee and so they are prepared to share the cost. Synergy stated that they are keen to look at developing a process to find a resolution.</p> <p>Perth Energy noted that they don't support the refund of Capacity Credits and SRC on top of this. SRC should be funded out of Capacity Payment Refunds. They stated that they support a cap of SRC cost, which possibly could be insured.</p> <p>Griffin responded that the cap cannot be insured, and that it is unlike NEM as Participants didn't enter the market knowing these rules. The new risk is not priced into the Market.</p> <p>Perth Energy commented that there should be a way for IMO to be able to mitigate this by adding quick build generation.</p>
<p>2.</p>	<p><b>OTHER ISSUES</b></p> <ul style="list-style-type: none"> <li>• The imposition of SRC costs on generators does not recognise that generators bear most of the cost of the capacity shortage through the higher STEM prices if they are bilaterally contracted for the lost capacity.</li> <li>• There is reverse incentive. That is as 1 MW could trigger the IMO calling SRC and this is all put onto the Generator not the Retailer who used the extra power, retailers have no incentive to lower peak load.</li> <li>• Griffin noted that they consider that the Market Customers are the "causer" and should consequently pay for the costs of SRC. There is a major risk to Generators in securing power for bilateral contracts from the Short Term Electricity Market during an outage, and there is a very limited choice of supply</li> </ul>
<p>3.</p>	<p><b>TIMING OF PROCESS</b></p> <p>IMO noted that it is constrained by Rule Change process and Market Rules, but that they have provisions which allow for extensions to the current timeframes. It was also noted that the intent of the IMO Board is to get the right outcome for the market.</p> <p>The IMO noted that next summer the capacity available is over and above the requirement so the power system would at this stage appear to be in a comfortable position. The IMO noted that there would need to be a double contingency in order for SRC to be called, given the positive supply position.</p> <p>Alinta queried whether there is an alternative process to release another draft for comment?</p> <p>IMO responded that they will take this on notice and inform the Market of decision in due course.</p>