Wholesale Electricity Market
Rule Change Proposal Submission Form

RC_2008_35 – Capacity Refund Mechanism – New Generators

Submitted by

Name:	Shane Cremin
Phone:	9261 2908
Fax:	9488 7330
Email:	shane.cremin@thegriffingroup.com.au
Organisation:	Griffin Energy
Address:	L 15, 28 The Esplanade, Perth, WA, 6000
Date submitted:	13-02-09

Submission

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

Griffin is the instigator of Rule Change Proposal RC_2008_35. After participating in the Working Group; and through first hand commercial experience of the development of Bluewaters Unit 1, Griffin can happily maintain the following:

- That the cost of developing significant assets can be reduced by minimising exposure to unnecessary and punitive capacity refund risks which might occur in extreme circumstances. This is achieved through either a reduction in the (risk related) working capital for the construction; or, if working capital provisions are set at maximum exposure levels (as is often the case with conservative lender finance), through the liquidated damages provisions not having to cover the increased 'burn rate' of the working capital (via a higher risk related EPC contract price). While the reduction in cost described might translate to marginal benefit for the wholesale price in the market (though a benefit none-the-less), it may have significant ramifications for the competitive position of specific generation types.
- That due to the refund mechanism being applied unilaterally to all forms of scheduled generation (noting separate rules exist for intermittent generation and DSM), the mechanism naturally discriminates against assets with characteristics which make them more likely to incur very high refund costs, such as new entrant plant and specifically capital intensive new entrant plant. It should be noted that the rule change proposal retains the interval and seasonal specific incentive mechanism of the current capacity refund

mechanism and still levies significant refund costs (or penalties) against plants experiencing extended forced outages and not meeting their contractual obligations to the IMO to provide capacity (noting that such plants are likely to have other bilateral contractual commitments for capacity and energy).

- That there is no (or negligible) increase to reliability gained through increasing already high refund costs applicable to extended forced outages to punitive levels (as the most recent change to the capacity refund mechanism does). Other commercial mechanisms of project financed and bilaterally contracted developments highly incentivise commercial readiness on a timely basis – particularly for capital intensive, energy producing generators.
- That the capacity and capacity refund mechanisms require significant review as a mechanism for incentivising a diverse range of capacity into the market on a timely (or just-in-time) basis and in line with system security and legislative objectives (e.g. renewable and low emission generation).
- That there is little basis to the contention of regulatory risk based on the modification of a previous (recent) rule change. It is arguable that if a previous rule change results in treating a single (or group of) Participants "unduly harsh" – whether intended or not – in contravention of a direction from the Office of Energy (and economic efficiency principles) then not addressing this through the market rule change process might lead to a greater perception of regulatory risk.

---

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

Griffin believe that a more significant reform of the WEM capacity market should be undertaken to better achieve the desired market outcomes, including incentivising timely investment in new capacity and ensuring a diverse mix of energy producing fuel types in line with system security objectives and mandated renewable and emissions legislation.

Based on the current mechanism, on balance, the rule change proposal should better achieve the market objectives.

(a) Decreasing regulatory (risk) costs for no (or negligible) decrease in the safe and/or reliable production and supply of electricity is economically efficient, so this objective is, on balance, better achieved under the rule change proposal

(b) There is a marginal effect under this objective where the most competitive energy markets are those with the most appropriate mix of generation types. New competitors (in this case new assets competing for fuel resources and customers) that are not the most appropriate (due to inefficient or discriminatory price signals) may lead to a lessening of competition in the market.

(c) New entrant generation that is more likely to incur extended forced outage refund costs through late commissioning (i.e. capital intensive plant or new technology) is clearly discriminated against under the current refund mechanism, universally applied to scheduled generators. The proposed rule change mitigates some of this discrimination.

(d) Griffin contends that, the cost of wholesale electricity will be reduced under the rule change proposal.

(e) Not applicable.

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.

As a developer of significant generation facilities, this proposal will lead to lower risk related development costs.

As a retailer, this proposal will likely reduce (non-forecast) income via the capacity refund mechanism settlement process.

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

Not applicable.

Level 22 Forest Centre 221 St Georges Terrace Perth Western Australia 6000
Tel: (08) 9254 4300 Fax: (08) 9254 4399
Email: imo@imowa.com.au www.imowa.com.au