Wholesale Electricity Market
Rule Change Proposal Submission Form

RC_2009_11 Changing the Window of Entry into the Reserve Capacity Market

Submitted by

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Submission

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

Background

Capacity from new Facilities may currently be made available to the market at any time during a four-month window (between 1 August and 30 November) centralised around 1 October. Market Participants are able to nominate any date within the window, and may revise their expected entry date as the project nears completion.

It is understood that the objective of allowing new Facilities to enter the market and receive Capacity Credit payments from as early as 1 August is to encourage new Facilities to enter the market as early as possible, with any subsequent delays in commissioning and/or unplanned outages (i.e. Forced Outages) then less likely to affect the power system over the summer period (when demand reaches system peaks).

It has been suggested that the reserve capacity entry window promotes inappropriate risk taking. For example, the developer of a new Facility may push to commission the new Facility in order to deliver capacity to the market by the close of the reserve capacity entry window (i.e. 30 November). The (unappealing commercial) alternative would be to commission the project later, and forego Capacity Credit payments until 1 August the following year.

It has also been suggested that to the extent that the reserve capacity entry window encourages project developers to push to achieve a particular commissioning date, the risk of being unable to commission and/or the risk of subsequent Forced Outages immediately following commissioning of the new Facility is increased.

If the capacity of the new Facility is not available by 30 November, or is subject to Forced Outages, the security of the power system may be placed at increased risk.

Rule Change Proposal

RC_2009_11 would amend the current Market Rules to allow capacity from new Facilities to be made available to the market during a four-month window between 1 June and 1 October, centralised around 1 August.

Table 1 of the IMO's Rule Change Proposal indicates that RC_2009_11 would increase the cost incurred by the market for a given amount of new capacity by up to 100% (for a given set of assumptions around when the new capacity is made available to the market).[1]

Alinta's views

Alinta does not support RC_2009_11 as the rule change proposal does not demonstrate that the increased costs that would be borne by the market are justified on the basis that the benefits exceed the costs, or are appropriate given:

- the effect of shifting the reserve capacity window is unclear;
- the effect of shifting the reserve capacity window on risk taking behaviour is unclear; and
- the Market Rules already contain mechanisms to discourage inappropriate risk taking.

These matters are discussed in more detail below.

The effect of shifting the reserve capacity window is unclear

Discussions during a workshop on another rule change proposal (RC_2008_35) indicated that:

- the timing of commissioning of a new Facility was predominantly determined by the project's foundation customer(s) through negotiated power purchase agreements, rather than by the four-month capacity 'window' in the Market Rules; and
- projects delivering new capacity are subject to a significant number of risks that could affect the ability to commission the new Facility in order for that capacity to be available to the market at the planned time (and within the four month capacity 'window').

Given the changes to the Market Rules that would result from RC_2009_11 would not affect project specific risk, the effectiveness of the rule change proposal of itself in ensuring that new capacity is available by the commencement of the summer period is unclear.

1 These assumptions include the amount of new capacity, and the profile in accordance with which the new capacity is assumed to be made available to the market. For example, whether the capacity is made available to the market at the start, mid-point or end of the reserve capacity window.

The effect on risk taking behaviour is unclear

By extending the period between the close of the reserve capacity window and commencement of the summer period, the rule change proposal may reduce the risk of Forced Outages occurring during the summer period (i.e. December to March). Such Forced Outages may occur either due to an inability to commission the new Facility, or alternatively because a new Facility may have a higher probability of experiencing Forced Outages immediately following commissioning.

However, the effect of RC_2009_11 on the risk taking behaviour of a developer of new capacity is unclear. Given the Capacity Credit payment refund multiplier is less than one during October and November, there would arise a financial incentive for developers to claim to be able to make new capacity available to the market by 1 October, even if this were not the case. That is, to the extent that the current Market Rules promote inappropriate risk taking, it is not clear that RC_2009_11 would affect this, and it may therefore not reduce the risk of Forced Outages occurring during the summer period (i.e. December to March).

The Market Rules appear premised on the expectation that new capacity, once commissioned, has the same probability of a Forced Outage as existing capacity. For example, Market Rule 4.10.1(c)(iii)(7) states that where the Facility, or part of the facility, is yet to enter service, information to be submitted with an application for certification of Reserve Capacity for a specific Reserve Capacity Cycle must include:

> *"when the Facility, or part of the Facility, will have completed all Commissioning Tests and be capable of meeting Reserve Capacity Obligations in full;"* [emphasis added]

Therefore, rather than attempting to decrease the probability of new Facilities suffering Forced Outages during the first summer period of service indirectly through RC_2009_11, it may instead be preferable to examine the effectiveness of related elements of the Market Rules that may directly address this. These elements would include the following.

- The Commissioning Plan submitted to the IMO under Market Rule 2.33.3(c)(vii)(2)
- The Commissioning Test approved by System Management under Market Rule 3.21A.3

The Market Rules already contain mechanisms to discourage inappropriate risk taking

It is not clear that the existing Market Rules do not already achieve an appropriate balance between financial incentives to make new capacity available to the market ahead of the start of the summer period (i.e. December), and financial penalties if the new capacity cannot be made available by the start of the summer period.

First, under Market Rule 4.26.1 all Facilities (including new Facilities that are unable to provide capacity to the market by 30 November) are liable to refund Capacity Credit payments for Forced Outages. Refund multipliers are highest in February and March, followed by December and January.[2]

[2] In aggregate, the total of any Capacity Credit refunds paid by a Market Participant to the IMO in any year is capped at the value of Capacity Credit payments received for that year. The value of Capacity Credit payments is established by assuming the IMO acquired all of the Capacity Credits held by the Market Participant at the Maximum Reserve Capacity Price, which is administratively determined.

The IMO has proposed that a rule change proposal (RC_2008_35) that sought to reintroduce seasonal caps on the amount of Capacity Credit payments that Facilities (including new Facilities) would be liable to refund for any Forced Outages on the basis that Market Rule 4.26.1 was 'punitive' be rejected. The IMO's recommendation was based on the conclusion that the rule change proposal would reduce incentives for new (and existing) generators on outage to make available capacity during the Hot Season, which would have the potential to reduce overall system reliability at a time when demand could be expected to be highest.

Second, the IMO's is proposing to accept (with amendments), a rule change proposal that would amend the Market Rules so that in certain circumstances the cost of Supplementary Capacity Contracts would be targeted at specific Market Participants rather than being included in the Shared Reserve Capacity Cost (RC_2008_34). These circumstances would include where a Facility suffers an extended Forced Outage.

Unclear that the benefits exceed the costs

As noted above, the IMO's Rule Change Proposal indicates that RC_2009_11 would potentially double the cost incurred by the market for a given amount of new capacity entering the market.

The IMO's Rule Change Proposal identifies a number of benefits that are claimed would arise as a result of the changes to the Market Rules proposed RC_2009_11, although none of these have been quantified. It is therefore unclear whether the benefits that are claimed to be associated with RC_2009_11 exceed the costs.

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

Market Rule 2.4.2 states that the IMO must not make Amending Rules unless it is satisfied that the Market Rules, as proposed to be amended or replaced, are consistent with the Wholesale Market Objectives. The Wholesale Market Objectives are as follows.

(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.

To the extent that RC_2009_11 results in capacity becoming available earlier than would otherwise be the case, it will increase the cost of capacity to the market. The value to the market of the early entry of this capacity is unclear particularly if, as discussed earlier, it does not reduce the risk of Forced Outages occurring during the summer period (i.e. December to March). Consequently, it is unclear whether RC_2009_11 is consistent with Wholesale Market Objective (a).

Given the benefits that are claimed to be associated with RC_2009_11 have not been quantified, it does not appear possible to conclude that the rule change proposal minimises the long-term cost of electricity supplied to customers from the South West interconnected system. Consequently, it is unclear whether RC_2009_11 is consistent with Wholesale Market Objective (d).

The Market Rules do not appear to provide guidance as to whether the IMO may make Amending Rules where it:

- concludes that a rule change proposal is not consistent with one or more Market Objectives; or
- is unable to conclude that a rule change proposal is consistent (or at least not inconsistent) with each of the Market Objectives.

The Market Rules also appear to be silent on whether the IMO may assign weights to each individual Market Objectives, and hence conclude that the 'weighted average effect' of the rule change proposal is consistent with 'weighted average' of the Market Objectives.

As it cannot be determined that the rule change proposal is consistent with *each* of the Market Objectives, Alinta considers that the Market Rules preclude the IMO from accepting RC_2009_11.

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.

Alinta does not consider that the changes to the Market Rules contemplated by RC_2009_11 would require it to change its IT or business systems, and hence has not identified any IT or business costs that may be associated with the rule change proposal.

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

Alinta does not consider that the changes to the Market Rules contemplated by RC_2009_11 would require it to change its IT or business systems, and hence has not identified that any specific period of time would be required to implement the changes arising from the rule change proposal.