Wholesale Electricity Market
Rule Change Proposal Submission Form

RC_2010_12 Required Level and Reserve Capacity Security

Submitted by

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Submission

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

Background

RC_2010_12 was to amend clause 4.13.10 of the Market Rules to provide for the IMO to return a Reserve Capacity Security to a Market Participant within 10 Business Days after the end of the relevant Capacity Year where a Facility:

1. is determined by the IMO to be in Commercial Operation; **and**
2. operates at a level which is at least 90 percent of its Required Level, scaled to the level of Capacity Credits specified in clause 4.20.1(a), in at least two Trading Intervals before the end of the relevant Capacity Year; **or**
3. provides the IMO with a report under clause 4.13.10C, which specifies that at least 90 percent of the Facility has been built.

In its previous submission, Alinta indicated it was concerned that the (then) proposed amended clause 4.13.10(b) was not consistent with the direction given by the MAC, and that it is also not necessarily the case that building 90 percent of the Facility equated to that Facility being technically capable of delivering 90 per cent of the Required Level.

Draft Rule Change Report

In its Draft Rule Change Report, the IMO notes that it has changed the (now) proposed amended clause 4.13.10(a)(ii) to instead require the report confirm that the Facility is **capable** of operating at 90 percent of its Required Level.

The IMO comments that it:

> *"…considers that linking the expert report to the percentage of a Facility's Required Level, rather than to its capability to operate in accordance with the basis that it was granted CRC, will ensure that any advice from the IMO's accredited expert that a different output level should apply for the purposes of proving that a Facility can meet its capacity obligations will be taken into account.*
>
> *Additionally, the IMO notes that Alinta's suggested amendments would be moving away from the requirement for the Facility to achieve 90 percent of its Required Level – that is by requiring the Facility to essentially be capable of operating at 100 percent of the basis on which it was granted CRC. This would be inconsistent with the treatment of other generation types which would only be required to meet 90 percent of their Required Levels."*

Alinta's further views

Alinta does not agree that the amendments that it proposed in its submission would be moving away from the requirement for the Facility to achieve 90 percent of its Required Level, nor that it would be inconsistent with the treatment of other generation types.

Firstly, once a Facility is deemed to be in Commercial Operation, it remains open to the Market Participant to have the Reserve Capacity Security returned by meeting one of three tests:

1. operate at a level which is 100 percent of its Required Level, scaled to the level of Capacity Credits specified in clause 4.20.1(a), in at least two Trading Intervals (for return of the security within 10 Business Days); **or**
2. operate at a level which is at least 90 percent of its Required Level (but not 100 percent), scaled to the level of Capacity Credits specified in clause 4.20.1(a), in at least two Trading Intervals before the end of the relevant Capacity Year (for return of the security within 10 Business Days of the end of the Capacity Year); **or**
3. provide the IMO with a report under clause 4.13.10C (for return of the security no earlier that 10 Business Days after the end of the Capacity year?).

As noted in the IMO's Draft Rule Change Report, allowing a Market Participant to rely on an independent expert's report for the return of Reserve Capacity Security was deemed necessary as a 'backstop' only to overcome potential uncertainty about the return of the security for intermittent facilities, which potentially posed a risk to investment funding. The potentially uncertainty and risk arises due to the intermittent nature of the facility - an issue that does not arise in respect of scheduled generation.

Importantly, for a Scheduled Generator its Reserve Capacity Obligation Quantity (RCOQ) would be set to its Required Level from the start of the Capacity Year, adjusted to the level of Capacity Credits specified in clause 4.20.1(a).

If, after the commencement of the Capacity Year, a Scheduled Generator knew it was not able to operate at 100 percent of its Required Level, it would be required to log a Forced Outage and would be exposed to capacity refunds throughout the Capacity Year for the extent to which it was unable to meet its Required Level (until its capacity was reduced following a Reserve Capacity test, as discussed below).

In addition, the ability of a Scheduled Generator to operate at 100 per cent of its Required Level is tested by the IMO two times in each Capacity Year. To the extent that a Scheduled Generator does not operate at 100 per cent of its Required Level in at least two Trading Intervals when tested by the IMO, it will have its level of Capacity Credits adjusted. While reducing its exposure to capacity refunds, it also means its capacity payments would then be reduced for the remainder of the Capacity Year.

It is the exposure to capacity refunds and lower capacity payment if its Capacity Credits are reduced that create an extremely strong financial incentive for Scheduled Generators to be built in accordance with the basis on which they applied for, and were granted, Certified Reserve Capacity and were assigned Capacity Credits.

While the opportunity to achieve an early return of Reserve Capacity Security after a Scheduled Generator has operated at 100 percent of its Required Level in at least two Trading Intervals, either voluntarily or following an IMO initiated capacity test, would reduce holding costs, this benefit appears to be relatively small and coincidental rather than being the primary financial incentive for a Scheduled Generator to be built in accordance with the basis on which they applied for, and were granted, Certified Reserve Capacity and to operate at 100 per cent of its Required Level.

For these reasons, while the proposed clause 4.13.10(a)(i) would enable **any** facility to apply for the return of the security within 10 Business Days of the end of the Capacity Year where they operate at a level which is at least 90 percent of its Required Level, the circumstances applying to Scheduled Generators suggests it highly unlikely that these facilities would utilise this clause for the return of their security.

In contrast to Scheduled Generators, Intermittent Facilities have a zero RCOQ. Consequently, they are not exposed to capacity refunds and because they are not tested by the IMO, these facilities are also not exposed to potentially having their Capacity Credits reduced in the same manner as Scheduled Generators if the facility was not built in accordance with the basis on which it applied for, and as granted, Certified Reserve Capacity and was assigned Capacity Credits.

As a result, there is no immediate financial incentive for these facilities to be built in accordance with the basis on which they applied for, and was granted, Certified Reserve Capacity and were subsequently assigned Capacity Credits.

Further, and despite potentially not being built in accordance with the basis on which it applied for, and as granted, Certified Reserve Capacity and was assigned Capacity Credits, the proposed clause 4.13.10(a) would create an opportunity for the full return of Reserve Capacity Security where the facility:

- operates at 90 percent of its Relevant Level; **or**
- provides the IMO with a report under clause 4.13.10C, which specifies that the Facility can operate at at least 90 percent of its Required Level

Consistent with its submission on RC_2010_14, Alinta strongly opposes any amendment of the Market Rules that transfers commercial, technical, construction and commissioning risk from developers proposing new facilities to the market generally, and Market Customers specifically.

If the proposed new clause 4.13.10(a)(ii) were implemented as set out in the Draft Rule Change Report, the developer of an intermittent facility would only need to operate at 90 percent of its Relevant Level in order to have its Reserve Capacity Security returned. If a Facility could only operate at this level it implies that the facility may not be capable of delivering the level of capacity to the market for which it applied for, and was granted, Certified Reserve Capacity and was subsequently assigned Capacity Credits.

While Alinta does not oppose the proposed new clause 4.13.10(a)(i), consistent with the direction given by the MAC, Alinta considers that the proposed amended clause 4.13.10(a)(ii) should be amended as previously proposed:

> provides the IMO with a report under clause 4.13.10C, which specifies that ~~at least 90 percent of~~ the Facility has been built in accordance with the basis on which the Facility applied for, and was granted, Certified Reserve Capacity, in accordance with clause 4.10 and 4.11 respectively and was subsequently assigned Capacity Credits in accordance with clause 4.14; and

The potential effect of the proposed new clause 4.13.10(a)(ii) as outlined in the Draft Rule Change Report is to enable Market Participants to come to a commercial decision on whether it remains attractive to deliver the amount of Capacity Credits originally notified to the IMO and accepted by it under clause 4.20, or some lesser amount.

To the extent that failure by a Market Participant to deliver the full quantum of Capacity Credits notified to the IMO then results in the aggregate quantum of Capacity Credits falling below the Reserve Capacity Requirement, the Market Participant responsible for this outcome would not be exposed to the potential costs that would result from the IMO needing to acquire Supplementary Reserve Capacity.

This is because any net payments that might be made by the IMO for Supplementary Capacity Contracts come out of the Shared Reserve Capacity Cost, which would be shared amongst Market Customers.

As the IMO is aware, RC_2008_34 was to amend the Market Rules to specifically target the cost of Supplementary Capacity Contracts at individual Market Participants where those participants were directly responsible for the requirement to procure Supplementary Reserve Capacity.

While advising the IMO to not proceed with RC_2008_34, its consultant also recommended the issue be referred back to the Supplementary Reserve Capacity Working Group to consider the issues more broadly, with a focus on:

- 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 in terms of risk management for customers and for which generators are responsible;
- The economic distribution of SRC costs among Market Generators and Market Customers;
- The extent to which Capacity Cost Refunds should first fund SRC before imposing any specific SRC costs on specific participants; and
- An assessment process that determines the SRC cost/volume that maximises economic efficiency based on prevailing market conditions.

While a proper examination of these issues remains outstanding, Alinta has previously signalled it consider this should occur sooner rather than later.

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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.

Alinta considers that the IMO cannot be generally satisfied that the amendments proposed by RC_2010_12 to clause 4.13.10(a)(ii) of the Market Rules are consistent with the Wholesale Market Objectives (a), (b) and (c).

If the issue identified by Alinta is resolved, it is likely that the amendments would be consistent with the Wholesale Market Objectives, and in any event are unlikely to be inconsistent with the Wholesale Market Objectives.

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 changes to the Market Rules contemplated by RC_2010_12 would not require Alinta to change its IT or business systems, and hence there are no IT or business costs 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.

The changes to the Market Rules contemplated by RC_2010_12 would not require Alinta to change its IT or business systems, and hence there is no specific period of time that would be required to implement the changes arising from the rule change proposal.