

Wholesale Electricity Market Rule Change Proposal Submission Form

RC_2010_12 Required Level and Reserve Capacity Security

Submitted by

Name:	Ky Cao
Phone:	08 9420 0300
Fax:	08 9474 9900
Email:	k.cao@perthenergy.com.au
Organisation:	Perth Energy
Address:	Level 4, 165 Adelaide Tce, Perth WA 6004
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Submission

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

Background

The Independent Market Operator (IMO) has reviewed the administration of Reserve Capacity Security and identified a number of issues. These issues were presented to the Market Advisory Committee (MAC) at its meeting of 12 May 2010. The issues can be summarised under seven different categories:

- 1. Treatment of Facilities once the first Reserve Capacity Cycle has lapsed:** The Market Rules are somewhat ambiguous on the issue of whether Reserve Capacity Security applies to one Reserve Capacity Cycle (only) or whether the security may need to be provided on a continuous basis. The IMO's application of the Market Rules since market start has been to only require Reserve Capacity Security for the first Reserve Capacity Cycle.
- 2. Treatment of Intermittent Facilities:** The Market Rules (clause 4.13.11A) currently stipulate that Reserve Capacity Security will be forfeited for Facilities that cannot operate at least at 90% of their Reserve Capacity Obligation Quantity (RCOQ) level in at least one Trading Interval when the RCOQ for the Facility exceeds zero.

Intermittent Facilities, typically wind farms, have their RCOQ set to zero in all Trading Intervals and therefore cannot possibly comply with this criterion. At the same time, the Market Rules also stipulates that Facilities captured by clause 4.13.10(c), which includes Intermittent Facilities, should have their Reserve Capacity Security returned at the end of the Reserve Capacity Cycle. The IMO's practice to date with respect to Intermittent Facilities is to apply clause 4.13.10(c) rather than clause 4.13.11A.

3. **Timing for return of Reserve Capacity Security:** Currently the Reserve Capacity Security cannot be returned any earlier than when the Facility has performed to its certified reserve capacity level in a Trading Interval when an RCOQ greater than zero applies. This in practice means it is currently impossible to have the Reserve Capacity Security returned any earlier than 1 July in year 3 of the Reserve Capacity Cycle, which is the first time that an RCOQ of greater than zero can apply. Facilities that commission ahead of the 1 July date will therefore continue to be exposed to the financial burden of providing Reserve Capacity Security.
4. **Treatment of upgraded Facilities:** When a Facility is upgraded, Reserve Capacity Security must be provided to cover the upgrade. The Market Rules are unclear as to how the test in clause 4.13.11 should apply. The test stipulates that if Reserve Capacity is proven to the 100% level, then the Reserve Capacity Security should be returned immediately. Furthermore, the clause also stipulates that as long as the Facility performs at least at the 90% level in any Trading Interval then the Reserve Capacity Security should be returned at the end of the Reserve Capacity Cycle. It is unclear whether the 90% and 100% tests should be applied to the entire Facility as a whole (including the upgraded portion) or solely to the upgraded portion, assuming 100% compliance from the existing portion.
5. **Treatment of Early Certification of Capacity:** On 1 February 2010 a Rule Change Proposal was implemented allowing for potential Reserve Capacity providers to certify capacity earlier than was previously possible. A number of inconsistencies in relation to the treatment of Reserve Capacity provided for "early" Reserve Capacity as distinct from "normal" Reserve Capacity have been identified.
6. **Clarification of rules surrounding return of non-cash Reserve Capacity Security:** The Market Rules currently stipulate that cash provided as Reserve Capacity Security must be returned within 10 Business Days, once the Facility has performed at the 100% level. The Market Rules are completely silent with regard to the treatment of non-cash Reserve Capacity Security, and
7. **Typographical issues:** A number of typographical issues as well as issues relating to the logical flow of the text in the section of the Market Rules pertaining to Reserve Capacity Security were also identified.

Change Proposal

On 17 November 2010 the IMO submitted a Rule Change Proposal to address each of the seven issues identified in the section above:

- **Issue 1:** The IMO has proposed to amend the Market Rules to reflect the current practice of only requesting Reserve Capacity Security for the first Reserve Capacity

Cycle of any “new” Reserve Capacity (upgrades to existing Facilities will still be subject to posting a Reserve Capacity Security).

- **Issue 2:** The IMO has proposed to replace the 90 and 100% tests that were linked to the RCOQ with a test linked to a new concept of “Required Level”. For most scheduled generators the new Required Level will reflect the current practice of having to perform to a predetermined theoretical output level, which will be temperature adjusted to reflect performance at 41°C. For Intermittent Facilities the Required Level will be either the level of output which equates to the 5% probability of exceedance (POE) of the 3 year expected generation output for the Facility or an alternative value proposed by an expert and accepted by the IMO.
- **Issue 3:** The IMO has proposed to amend the Market Rules to allow a return of the Reserve Capacity Security as soon as possible to any Facility that has performed at the Required Level and is considered by the IMO to be in Commercial Operations regardless of when compliance with the Required Level was achieved.
- **Issue 4:** The IMO has proposed to amend the Market Rules to clarify that for testing of upgrades of Facilities, the entire Facility as a whole would need to pass the 90% or 100% tests as applicable.
- **Issue 5:** The IMO has proposed a number of amendments in relation to Early Certification of Capacity to bring the treatment of such capacity in line with the treatment of capacity that goes through the “normal” certification process.
- **Issue 6:** The IMO has also proposed to amend the Market Rules to ensure that non-cash Reserve Capacity Security is treated in the same manner as cash provided as Reserve Capacity Security.
- **Issue 7:** The IMO has proposed a number of corrections to typographical errors and revised drafting within the Reserve Capacity Security section of the Market Rules to ensure a logical flow of this section of the Market Rules.

Perth Energy’s Views

Perth Energy supports the rule change proposal by the IMO. Perth Energy views the change proposal as a practical approach to address a number of irregularities in the current Market Rules. In particular, Perth Energy supports the introduction of the term “Required Level” which facilitates an assessment of the readiness (or otherwise) of Intermittent Facilities on a similar basis to that undertaken for scheduled generators. Perth Energy welcomes the clarifications in relation to the treatment of security following the lapse of the initial Reserve Capacity Cycle, the treatment of upgraded Facilities and the treatment of non-cash Reserve Capacity Security. Perth Energy also fully supports the alignment of the treatment of “normal” and “early” Certified Reserve Capacity.

Perth Energy proposes the following minor changes to the drafting to implement the change proposal:

1. Clause 4.10.3(c) to read “a proposed alternative value to that specified in clause 4.10.3(b), expressed in MW as a sent out value, to apply for the purposes of the Required Level, if in the opinion of the expert the value set out in (b) would not be a reasonable representation of the Required Level applicable; and”, and
2. Insert the word “or” immediately after the semicolon separating clauses 4.13.10(a) and 4.13.10(b)

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

Perth Energy supports the rule change proposal by the IMO and considers the change would better facilitate the achievement of Market Objectives¹ (b) and (c). In Perth Energy’s view the Rule Change Proposal addresses a number of irregularities with regards to the treatment of Reserve Capacity Security provided by different technologies. Perth Energy considers the proposed changes would remove some of the arbitrary differences in treatment that currently apply to different technologies. By providing a more level playing field between the technologies, discrimination will be avoided and by extension competition in the market for Reserve Capacity provision should be enhanced.

Perth Energy has not identified any adverse impacts on the other 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.

There will be no impact for Perth Energy.

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

Perth Energy does not require any lead time to implement the change.

¹ The objectives of the market are:

- (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; and
- (e) to encourage the taking of measures to manage the amount of electricity used and when it is used.