Wholesale Electricity Market
Rule Change Proposal Submission Form

RC_2010_14 Certification of Reserve Capacity

Submitted by

Name:	Corey Dykstra
Phone:	9486 3749
Fax:	9221 9128
Email:	corey.dykstra@alinta.net.au
Organisation:	Alinta Sales Pty Ltd
Address:	12-14 The Esplanade PERTH WA 6000
Date submitted:	11 April 2011

Submission

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

Summary

Alinta does not support the Market Rules being amended by RC_2010_14 to include new clause 4.11.10 as proposed by the IMO in its draft Rule Change Report.

The proposed new clause would allow the IMO to assign a lower (non zero) level of Certified Reserve Capacity to a Market Participant. Detailed reasons for Alinta's position were provided in its submission dated 25 January 2011, which is available on the IMO's website. For ease of reference, an extract is included in the attachment.

While PRC_2010_14 discussed by the MAC in October 2010 did include the proposed new clause 4.11.10, Alinta notes that there was no explicit reference or discussion in the concept paper itself to the proposal for the IMO to be able to assign a lower (non zero) level of Certified Reserve Capacity to a Market Participant. PRC_2010_14 simply states that (refer to October 2010 MAC Agenda Item 5c, p.75 of 169):

> *The IMO would then review the changes and determine whether it would need to reassess the Facility to determine whether it still meets the requirements or Certified Reserve Capacity (new clause 4.11.10).*

As this aspect of PRC_2010_14 was not explicitly drawn to the MAC's attention, Alinta considers it cannot be suggested this aspect of the amending rules had "the general support of the MAC".

Despite the IMO's proposed further amendment to clause 4.11.1(a), Alinta is also concerned that the amended clause remains onerous and would result in Market Participants incurring unnecessary additional costs, which the IMO has indicated it is seeking to avoid.

Proposed new clause 4.11.10

The Market Rules currently provide for the quantum of Capacity Credits associated with a Facility to be reduced in certain circumstances, being:

- following a Reserve Capacity test (clause 4.25.4); or
- as a result of an application from a Market Participant to reduce its Capacity Credits (clause 4.25.4A), where such an application can only be made if the requirement to maintain Reserve Capacity Security for that Facility has ceased (clause 4.254B);

The proposed new clause 4.11.10 would require the IMO to review whether any information provided by a Market Participant in respect of a Facility that is yet to provide capacity to the market has changed since that Facility was granted Certified Reserve Capacity. It would also allow the IMO to reassess the quantum of Certified Reserve Capacity assigned to that Facility.

4.11.10. Upon the receipt of advice provided in accordance with clause 4.10.4 for a Facility that has already been assigned Capacity Credits for the relevant Capacity Year, the IMO must review the information provided and decide whether it is necessary for the IMO to reassess the assignment of Certified Reserve Capacity to the Facility. If this information would have resulted in the IMO assigning a lower, non-zero level of Certified Reserve Capacity the IMO must reduce the Capacity Credits assigned to that Facility accordingly and must advise the Market Participant within 90 days of receiving the submission.

The IMO comments that while the Reserve Capacity Mechanism is designed to be a firm mechanism, there is currently the potential for Market Participants to not disclose important information and change key aspects of a Facility after being certified with no recourse. For example, it claims that a proponent could replace a diesel generator with a wind farm after its initial certification.

However, the proposed new clause 4.10.4 would require Market Participants to advise the IMO if any of the details provided in an application for Certified Reserve Capacity for a Facility in accordance with section 4.10 of the Market Rules had changed. This clause should ensure that the IMO is aware of any changes to key aspects of a Facility after certification, including replacement of a diesel generator with a wind farm as suggested by the IMO.

The IMO also suggests there is a trade off between:

- retaining the financial incentives for project developers to ensure that capacity is made available to the market ahead of the summer period; and

- certainty regarding the true level of capacity available in the market (in a timely manner).

The IMO comments that:

> *…the ability to assign Capacity Credits based on the most up to date and correct information, reflecting the actual capabilities of Facilities will enhance the certainty regarding the amount of Reserve Capacity available in the SWIS and retains the link to the physical basis of Capacity Credits.* ***This will enable the IMO to address any potential shortfall issues in a timely and efficient manner*** *[emphasis added].*

The IMO also claims that the risks associated with non-delivery of Capacity Credits assigned at the time of bilateral trade declarations or the Reserve Capacity Auction, such as the loss of Reserve Capacity Security, will still be borne by the project developer.

Proposed amended clause 4.11.1(a)

The IMO noted that the Market Rules currently require it to assess the level of capacity "likely to be available ... at daily peak demand times" (clause 4.11.1(a)) in assessing an application for Certified Reserve Capacity.

It suggested this obligation required further clarification as a requirement for a peaking plant to have sufficient fuel to support operation for 14 hours each day for 10 months of the year would be extremely onerous and could result in Market Participants incurring unnecessary additional costs. It also noted that it was unlikely that peaking plants would be required to operate at this level so it would be reasonable to clarify the availability requirement to refer to Peak Trading Intervals on Business Days, particularly given that system demand is typically lower on weekends and public holidays.

Consequently, the IMO proposed that clause 4.11.1(a) be amended as follows.

4.11.1. Subject to clause 4.11.7, the IMO must apply the following principles in assigning a quantity of Certified Reserve Capacity to a Facility for the Reserve Capacity Cycle ~~to~~ for which ~~the~~ an application for Certified Reserve Capacity has been submitted in accordance with section 4.10~~relates~~:

(a) subject to clause 4.11.2, the Certified Reserve Capacity for a ~~Facility~~ Scheduled Generator for a Reserve Capacity Cycle is not to exceed the IMO's reasonable expectation as to the amount of capacity likely to be available ~~from that Facility~~, after netting off capacity required to serve Intermittent Loads, embedded loads and Parasitic Loads, ~~at daily peak demand times~~ for Peak Trading Intervals on Business Days in the period from the:

….

Alinta's further comments

Transfer of risk

As noted in its previous submission, the effect of the proposed new clause 4.11.10 would be to transfer commercial, technical, construction and commissioning risk from developers proposing new Facilities to Market Customers generally.

The IMO notes that if a project developer fails to deliver the quantum of Capacity Credits notified to the IMO and accepted by it under clause 4.20, it may forfeit its Reserve Capacity Security. While this is true, the proposed new clause 4.11.10 would enable Market Participants to come to a commercial decision on whether it is more attractive to deliver the amount of Capacity Credits notified to the IMO and accepted by it under clause 4.20, or whether to deliver some other amount of capacity taking into account the potential forfeiture of Reserve Capacity Security.

To the extent that failure by a Market Participant to deliver the quantum of Capacity Credits notified to the IMO and accepted by it under clause 4.20 results in the aggregate quantum of Capacity Credits falling below the Reserve Capacity Requirement, the responsible Market Participant is not currently exposed to the potential costs of 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, it rejected RC_2008_34, which 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.

Alinta considers it would not be appropriate to proceed with amending the Market Rules to include the new clause 4.11.10 as proposed by RC_2010_28 until the issues identified above have been considered.

Is the IMO precluded from addressing potential shortfall issues in a timely and efficient manner

In its Draft Rule Change report, the IMO appears to indicate that although:

- it might be known ahead of a Facility making capacity available to the market that it could not deliver the amount of capacity (up to the amount of Certified Reserve Capacity) nominated by the project proponent (e.g. replacement of a diesel generator with a wind farm); **and**
- that such a shortfall might cause Reserve Capacity to fall below the Reserve Capacity Requirement; **then**
- it would not be able to act on this information; **unless**
- it reduced the amount of Certified Reserve Capacity to the level that could be delivered by the Facility.

However, clause 4.24.1 of the Market Rules states that if, at any time after the day which is six months before the Capacity Year **the IMO considers that, in its opinion**, inadequate Reserve Capacity will be available in the SWIS to satisfy the requirements described in clauses 4.5.9(a) and (b), and Reserve Capacity Auction intended to secure Capacity Credits for that time has already occurred or been cancelled, then it must:

- determine the expected start and end dates for the period of the shortfall;
- determine the expected amount of the shortfall; and
- seek to acquire supplementary capacity in accordance with clause 4.24.2.

Clause 4.24.1 would appear to provide significant discretion to the IMO in acquiring supplementary capacity where it is of the **opinion** that inadequate Reserve Capacity will be available. That is, the IMO's ability to seek to acquire supplementary capacity under clause 4.24.1 **is not restricted** only to instances where the actual quantum of Certified Reserve Capacity (or Capacity Credits) is below the Reserve Capacity Requirement.

Consequently, it appear inaccurate to suggest that the current Market Rules might preclude the IMO from addressing a potential capacity shortfall in a timely and efficient manner where the potential shortfall becomes known to the IMO ahead of a Facility making capacity available to the market.

Peak Trading Intervals on Business Days

Alinta notes that the IMO has accepted that it would be extremely onerous for Market Participants to be required to ensure that peaking Facilities have sufficient fuel to support operation for 14 hours each day for 10 months of the year, and that it would be likely that unnecessary additional costs would be incurred.

Despite further changes, Alinta is concerned that the proposed amendments to clause 4.11.1(a) would continue to be onerous and would impose unnecessary additional costs for Market Participants with distillate-fuelled peaking Facilities.

This is because it is unlikely that there would be a material difference in the physical infrastructure and supply arrangements that are necessary, and hence costs that would be incurred, in ensuring a Facility had sufficient fuel to support operation for:

- 14 hours a day, seven days a week for ten months of the year (as originally proposed); or
- 14 hours a day, for business days for ten months of the year (as now proposed).

For example, costs would be incurred in respect of:

- construction of (additional) onsite storage tanks;
- tank rental costs in relation to offsite distillate storage;
- prepayment for distillate stored offsite;
- costs associated with hedging exposure to movements in distillate costs (as prepayment is refunded at end of contract period);
- distillate testing costs; and
- haulage costs to transport distillate from offsite storage tanks to onsite tanks.

The cost of the physical infrastructure and supply arrangements that would be needed would depend to a large part on the extent to which available supply chain logistics could be depended on to replenish onsite fuel stores.

For example, the extent to which a Market Participant would need to maintain onsite fuel stores would depend on supply chain logistics, specifically fuel tanker capacity and availability.

The capacity of a B-double tanker is approximately 45,000 litres. The number of B-doubles that would be required would depend on the burn rate of an individual Facility, its distance from the offsite distillate storage tanks, and the rate at which the B-doubles could be filled and emptied.

Irrespective of the quantity of onsite storage, longer term the only way Market Participants could ensure they would be capable of ensuring onsite storage could sustain operating for 14 hours a day (either all days or business days) for extended periods (i.e. up to 10 months) would be to meet the cost of a dedicated B-double fleet.

However, even then, it is unclear whether a Market Participant would be able to purchase sufficient volumes of distillate from the sole refinery in Western Australia to meet continuous operation on distillate (i.e. 14 hours a day, for business days for ten months of the year).

Alinta considers it likely that for these reasons the Market Rules currently provide the IMO with discretion to determine what periods constitute “daily peak periods”, rather than formulaically prescribing the duration of time for which a Facility must be able to supply energy.

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 satisfied that RC_2010_14 is consistent with the Wholesale Market Objectives, and in any event overall the proposed amendments are likely to be inconsistent with the Wholesale Market Objectives.

In particular, the following outcome of the amendments to the Market Rules contemplated by RC_2010_14 is likely to be inconsistent with the following Market Objectives.

- Market Objective (a), (b) and (c) because the proposed new clause 4.11.10 would transfer commercial, technical, construction and commissioning risk from developers proposing new Facilities to Market Customers generally.
- Market Objective (b) and (c) because the proposed new clause 4.11.10 would be likely to provide an advantage to future new Intermittent Facilities.
- Market Objective (a), (b), (c) and (d) because the proposed amended clause 4.11.1(a) would be likely to increase the long-term cost of electricity supplied to customers from peaking Facilities in the South West interconnected system.

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_14 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_14 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.

ATTACHMENT

REASSESSMENT OF THE ASSIGNMENT OF CERTIFIED RESERVE CAPACITY (PROPOSED NEW CLAUSE 4.11.10)

After the IMO has set the Certified Reserve Capacity for a Facility, the proposed new clause 4.11.10 would allow the IMO to assign a lower (non-zero) level of Certified Reserve Capacity based on information contained in advice provided by a Market Participant under the proposed new clause 4.10.4.

Alinta does not support the Market Rules being amended to allow the IMO to assign a lower (non-zero) level of Certified Reserve Capacity after it has notified a Market Participant of the Certified Reserve Capacity to be assigned under (the amended) clause 4.1.12.

Alinta considers that the proposed new clause 4.11.10 would be inconsistent with the Market Objectives as it would:

- undermine the economically efficient, safe and reliable production and supply of electricity and electricity related services in the South West interconnected system;
- distort competition among generators in the South West interconnected system, including by facilitating inefficient entry of new competitors; and
- discriminate against particular energy options and technologies.

Specifically, the effect of the proposed new clause 4.11.10 would be to transfer commercial, technical, construction and commissioning risk from developers proposing new Facilities to Market Customers generally.

This is because the proposed new clause 4.11.10 would facilitate project developers changing the capacity to be made available by a proposed Facility due to changes in commercial or technical circumstances after the IMO had notified it of the Certified Reserve Capacity to be assigned under clause 4.1.12 and provided by Market participants under clause 4.20.1(a) (or the proposed new clause 4.20.5A).

To illustrate, in RC_2010_22, the IMO poses an example of a 100MW wind farm (comprising of 50 x 2MW turbines) that has constructed and commissioned 20 turbines (i.e. for an installed name-plate capacity of 40MW).

- Under the current Market Rules, the Facility would not meet the criteria for being 'commissioned', as is it not fully operating in accordance with the basis on which the Facility applied for, and was granted, Certified Reserve Capacity. Consequently, clause 4.26.1A(a)(iv) would require it to pay a refund based on the **full quantity** of Capacity Credits associated with the Facility.

  The intention of RC_2010_22 (*but not the effect, as currently drafted*) is that an Intermittent Facility instead pay a refund based on the size of the MW shortfall relative to the quantity of Capacity Credits associated with the Facility. Alinta has separately commented on the issues raised by RC_2010_22 as currently proposed.

- However, the effect of the proposed new clause 4.10.4 in RC_2010_14 would appear to be to enable a developer of any type of Facility to provide a report (*at any time prior to the date its Reserve Capacity Obligation Quantity applied?*) that it intended to only construct only part of the proposed facility, for example 20 turbines instead of the full 50.

  It appears that the project developer's failure to construct the Facility in accordance with the basis on which it applied for, and was granted, Certified Reserve Capacity could have arisen due to:

  - changes that make it **commercially unattractive** to the project developer to construct the Facility as originally proposed; or
  - **technical challenges**, that means the Facility can no longer be delivered as originally proposed by the project developer.

  In this situation, it would appear that following the changes to the Market Rules contemplated by RC_2010_14, the Facility would no longer be exposed to refunds, as there would not longer be any MW shortfall relative to the revised quantity of Capacity Credits associated with the Facility.

Irrespective of the reason that the Facility is not constructed in accordance with the basis on which it applied for, and was granted, Certified Reserve Capacity, Alinta considers that these risks should be borne by the project developer, as it is best placed to manage and mitigate such risks.

The likely effect of the proposed new clause 4.11.10 is to undermine the strong financial incentives that currently exist in the Market Rules for project developers to ensure that capacity is made available to the market ahead of the summer period when demand reaches system peaks. If capacity expected to be available is not delivered, there is a risk that the security and reliability of the power system over the summer period may be adversely affected.

Further, in situations where the amount of capacity certified by the IMO exceeds the Reserve Capacity Requirement, the Reserve Capacity Price is adjusted so that the overall capacity cost to Market Customers does not exceed that which would be paid if the amount of capacity only equalled the Reserve Capacity Requirement (and the price was the Maximum Reserve Capacity Price).

Consequently, if implemented as proposed, and in situations where the amount of Certified Reserve Capacity assigned by the IMO, and subsequently provided by Market participants under clause 4.20.1(a) (or the proposed new clause 4.20.5A), exceeds the Reserve Capacity Requirement, RC_2010_14 would also need to readjust the capacity price for the affected capacity year(s).