

Wholesale Electricity Market Rule Change Proposal Submission Form

RC_2010_14 Certification of Reserve Capacity

Submitted by

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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 section of the Market Rules relating to certification of Reserve Capacity. The IMO identified a number of issues in its review:

- 1. Reserve Capacity Mechanism timeline:** The number of applications for certification of Reserve Capacity has been steadily increasing since Market Commencement. The IMO has identified that for the 2005 Capacity Year, 52 Facilities were certified. Whereas, for the 2012 Capacity Year the number of Facilities certified more than doubled, to 105 Facilities. Applications for certification of Reserve Capacity close on the last business day falling on or before 20 July each year. Typically, the IMO receives the majority of applications in the last few days before this deadline. In these circumstances the IMO then only has 12 Business Days to assess applications. These factors acting in combination place strain on the IMO's resources and ability to properly assess applications.

The Market Rules currently also only allow a short amount of time (in some cases only 3 business days) for parties to post Reserve Capacity Security. This has proven problematic in some instances.

Finally, the Market Rules do not provide an explicit date for when Reserve Capacity Credits are assigned to Facilities, other than that it will happen some time between the 20th and 23rd of December. When the Reserve Capacity Auction is not held it would be possible to assign Reserve Capacity Credits at a much earlier stage.

2. **Requirement for compliant application to be submitted for Certified Reserve Capacity:** Clauses 4.11.1 and 4.11.2 of the Market Rules make reference to “applicant” and “application” without referencing clause 4.10 which establish the criteria that an application must conform to. The Market Rules also do not specifically require documentary evidence to be provided to support an application for certification of capacity.
3. **Clarification of Required Availability:** The certification method described in clause 4.11.1(a) of the Market Rules, which relates to the expected capacity available at peak times, should, in the IMO’s view, be constrained to Scheduled Generators as Non-Scheduled Generators would not be expected to be able to respond to an instruction from System Management to increase generation if required to do so. The Market Rules are silent on which type of Facility the method described in clause 4.11.1(a) should apply to.

Peaking plants are currently required to have fuel available for 14 hours of continuous operation. The IMO considers this to be an onerous requirement.

Dual fuel Facilities are required by the Market Rules to have back up fuel for continuous operation of at least 12 hours. However, the Market Rules are silent as to what level of operation (for example should it be at full or half load) this requirement has been set at.

4. **Transmission access requirements:** The Market Rules currently require participants to have in place an “Access Offer” before being granted Certified Reserve Capacity. However, an Access Offer is rarely issued sufficiently in advance to be able to be reviewed by the IMO at the time when a Facility is first certified.
5. **Widen requirements for provision of environmental and transmission access approvals:** Environmental approvals and transmission access approvals may have conditions, such as complying with certain transmission constraints that may impact on a Facility’s ability to generate output. Approvals also generally have an expiry date. The Market Rules currently do not explicitly mandate the IMO to review such approvals regularly to ensure that Facilities have all the necessary approvals in place at all times.
6. **Clarification around Intermittent and other Non-Scheduled Generators:** The certification process for Intermittent Facilities makes use of an expert report. The Market Rules stipulate that the IMO must use the expert report (even when the IMO has reason to believe the expert report to be invalid). The Market Rules also require

participants to obtain a new expert report every year until 3 year's of actual generation data has been obtained.

7. **Transmission or other network constraints:** The Market Rules require the IMO to assign Capacity Credits to Facilities with Network Control Services contracts having regard to any "transmission constraints" that may occur. Network Control Services contracts may also be used at the distribution level and the term "transmission constraints" may therefore be too narrow.
8. **Erroneous references to "Registered Facilities":** Clause 4.28C relating to Early Certification of Reserve Capacity refers to Registered Facilities at a point in time before these Facilities have been through the registration process and become Registered Facilities.
9. **Provision of calculation on which the IMO's assessment is based:** The Market Rules currently require the IMO to provide the workings for its calculations underpinning the assignment of Reserve Capacity to the Market Participant that applied for certification. The IMO considers this requirement to be onerous.
10. **Publication of Certified Reserve Capacity information by Facility:** The IMO is currently allowed to publish Capacity Credit Information by Facility. One Market Participant has suggested this information should be published prior to the Bilateral Trade Declaration process to assist Market Participants in making a decision whether to withdraw capacity in an over-supply scenario. Although there could be benefits in providing this information there is also a clear potential for gaming, and in particular by forcing a Reserve Capacity Auction which may not otherwise have taken place.
11. **Changes to Facility design after Capacity Credits have been awarded or maintenance of data provided for Certification of Reserve Capacity:** The Market Rules do not currently specifically require Market Participants to inform the IMO of any design changes after Capacity Credits have been awarded.
12. **Repeated rejection of progress reports by the IMO:** The Market Rules require that Market Participants provide regular progress to the IMO with regard to the status of any projects that have been assigned Reserve Capacity Credits. In the report, Market Participants can also nominate a new Commissioning Date. The Market Rules require that the IMO reject any nominations for a date which would have prevented the IMO from assigning capacity, i.e. a date that is outside the 4 month commencement window for Certified Reserve Capacity. Under the current Market Rules, projects that are delayed will be presented with a rejection from the IMO after every report that shows a completion date outside the 4 month window. This is considered by the IMO to be unnecessary as the Market Rules very clearly sets out the consequences for late commissioning.

Change Proposal

On 6 December 2010 the IMO submitted a Rule Change Proposal to address each of the 12 issues outlined above. In summary, the IMO proposed to address the issues as follows:

- **Issue 1:** The IMO has proposed to lengthen a number of the deadlines in the current process by shifting some deadlines forward and pushing others back. In particular, the IMO intends to allow about 2 weeks to provide Reserve Capacity Security, with the cut off point to submit a certification application being brought forward by almost 3 weeks to 1 July. The IMO has also proposed that in the case where no auction is held, that Certified Reserve Capacity is assigned within 2 Business Days after the application submission end date.
- **Issue 2:** The IMO has proposed to amend the Market Rules to specifically reference clause 4.10 within clauses 4.11.1 and 4.11.2 and also specifically require applications to be substantiated.
- **Issue 3:** The IMO has proposed to change the Market Rules so that it is clear that clause 4.11.1(a) only applies to Scheduled Generators and also amend the drafting of clause 4.11.1(a) to specifically require Scheduled Generators to be available for Peak Trading Intervals on Business Days, rather than the currently more generic “daily peak demand times” during any day. Finally, the IMO has also proposed to amend clause 4.10.2 to clarify that dual fired Facilities must be able to operate for 12 hours at the requested level of Certified Reserve Capacity.
- **Issue 4:** The IMO proposes to replace the reference to “Access Offer” with “Access Proposal”.
- **Issue 5:** The IMO proposes to amend the Market Rules to require that all Facilities provide evidence of transmission access and environmental approvals. The IMO has also proposed that Market Participants be obliged to inform of any network constraints that may impact the availability of the capacity of the Facility.
- **Issue 6:** The IMO has proposed the Market Rules be amended to allow the IMO to reject an expert report provided for an Intermittent Facility if the report in the IMO’s opinion is inaccurate. Furthermore, the IMO has proposed that the same expert report can be used for the entire period until 3 years of operational data has been obtained, rather than commissioning a new expert report every year.
- **Issue 7:** The IMO has proposed to replace the words “transmission constraint” with “network constraint” in clause 4.11.1(g) to allow for both transmission and distribution constraints to be covered by Network Control Services contracts.
- **Issue 8:** The IMO proposes to correct the erroneous references to “Registered Facility” in clause 4.28C.
- **Issue 9:** The IMO proposes to amend the Market Rules so that it must only provide the workings for its calculations when requested to do so by the Market Participant.
- **Issue 10:** The IMO proposes to amend clauses 4.4.9A and 10.5.1 to require publication of the quantity of Certified Reserve Capacity assigned to each Facility on the same day that Market Participants are notified of their Certified Reserve Capacity.
- **Issue 11:** The IMO proposes to amend the Market Rules to stipulate that Market Participants must inform the IMO of any changes to the information provided in the

application for Certified Reserve Capacity. Furthermore, Participants must pay a fee to the IMO to cover the IMO's cost in assessing the information and whether it impacts on the certification.

- **Issue 12:** the IMO proposes to amend clause 4.27.11A so that it states that the IMO must only approve or reject a nomination for a new commissioning date if it would result in a change to the date from which Reserve Capacity Obligations would commence.

Perth Energy's Views

Perth Energy supports the IMO's rule change proposal. Perth Energy particularly welcomes the proposed increased flexibility in the Reserve Capacity Mechanism timeline. Some of the current provisions, such as the very short time allowed to provide Reserve Capacity Security, are onerous for both the IMO and Market Participants. Perth Energy considers the proposed new timeline to be more reasonable. Perth Energy notes however that the proposed new cut off for applications is not opportune, being set at 1 July and coinciding with an increased work load in many organisations due to the end of the financial year.

With regard to issue 5, Perth Energy would welcome further clarification of the proposed drafting for clause 4.10.1bA(i). The last two lines of that paragraph require Market Participants to provide evidence of an Arrangement for Access, "including the level of unconstrained access and details of any constraints that may apply". Perth Energy considers that this should be narrowed to only apply to constraints that may apply at the point of connection and / or constraints that may apply at the time the Arrangement for Access was entered into. Perth Energy identifies that the South West Interconnected Network (SWIN) may become constrained over time, leading to System Management [or another Network Owner] placing temporary constraints on/or requesting parties to generate at a particular level, that may be different to the conditions that were part of the original Arrangement for Access. Such temporary constraints, which are beyond the Market Participants control, should not impact on its Certified Reserve Capacity.

With regard to issue 11 Perth Energy queries whether the IMO intends to issue any more detailed guidelines, for example in a Market Procedure document as to what types of changes are considered significant enough to warrant a reassessment. It would be counterproductive for both Market Participants and the IMO to spend time and resources on reassessing applications where only minor and irrelevant changes have been made.

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 (a) and (b) in particular. This is

¹ The objectives of the market are:

because most of the changes either clarifies sections of the Market Rules that are currently ambiguous or introduces further measures to ensure safe and reliable production of electricity as is the case for example with the proposed new requirement to provide the IMO with any updates to the design of Facilities that occur after the original application has been submitted.

Perth Energy considers that the changes to the timeline, which introduces more flexibility, and in particular more time for participants to prove Reserve Capacity Security are helpful in encouraging competition both between existing players and potential new entrants.

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.

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- (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.