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## Wholesale Electricity Market Rule Change Proposal Submission Form

### RC\_2010\_25      Calculation of the Capacity Value of Intermittent Generation - Methodology 1 (IMO)

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#### Submitted by

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#### Submission

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

#### Background

It is understood that the modified IMO proposal outlined in the Draft Rule Change report for RC\_2010\_25 is for the number of Capacity Credits that maybe assigned to Intermittent Facilities to be determined as follows.

- Identify the top 12 'Load for Scheduled Generation' (LSG) (Operational Load less aggregate output from Intermittent Facilities) Trading Intervals on separate days in each of the previous five years.
- Calculate the average output of Intermittent Facility in these 60 Trading Intervals and the variance of the output.
- Set the number of capacity credits assigned to the Intermittent Facility on the basis of its average output less an adjustment factor 'G' time the variance of the Facility's output, where 'G' is calculated by 'K' + 'U' / average output.

The parameter 'K' is intended to reflect the *variability* of output of the Intermittent Facility during peak Trading Intervals, and its value was selected to align with similar size international systems.

The parameter 'U' is intended to reflect the *uncertainty* of the output of the Intermittent Facility during peak Trading Intervals, and its initial value was set to ensure that the fleet Capacity Credits are consistent with the fleet contribution to reducing the peak on peak demand days with the highest peak temperature.

The Draft Rule Change Report indicates that 'some judgement was used' in determining the specific values for 'K' and 'U' for the 2014/15, 2015/16 and 2016/17 Capacity Years, when the values of 'K' and 'U', and therefore 'G', are fixed. However, the values of these parameters would be reviewed by the IMO for subsequent Capacity Years.

### **Alinta's views**

Alinta supports the continued evolution of the Western Australian Wholesale Electricity Market (WEM) in a manner consistent with the Market Objectives. In particular, Alinta supports amendments to the Market Rules that promote the economic efficiency of the WEM, without compromising either the security of electricity supply or the reliability of the system.

Alinta supports the principle that the number of Capacity Credits assigned to an individual Facility be determined both on an equitable basis, and reflect the Facility's ability to support the secure and reliable operation of the WEM.

Alinta also supports an outcome whereby Facilities with output that is both more variable and less certain be assigned fewer Capacity Credits than Facilities with output that is less variable and more certain, particularly with respect to periods of peak demand.

The proposed changes to the Market Rules for determining the number of Capacity Credits that maybe assigned to Intermittent Facilities contemplated by the modified IMO proposal outlined in the Draft Rule Change report for RC\_2010\_25 appear to represent a step along this path.

Alinta makes the following specific comments.

- It is difficult to assess the appropriateness of the values that have been determined for 'K' and 'U', and further transparency on the setting of these values would be welcomed so as to preclude any inaccurate perceptions about the process.
- It is not clear why absolute operational peaks are not used if the intent is to assign Capacity Credits to Intermittent Facilities based on their ability to support the secure and reliable operation of the WEM during periods of peak demand. Peak LSG Trading Intervals represent an inherently biased sample of the output of Intermittent Facilities.
- The modified IMO proposal would allow for output metering data to be substituted with estimated data in the event of Consequential Outages. Alinta considers that where System Management issues dispatch instructions to an Intermittent Facility (to reduce output), output metering data should also be allowed to be substituted with estimated data.

- The manner in which the modified IMO proposal outlined in the Draft Rule Change report for RC\_2010\_25 would determine the number of Capacity Credits that may be assigned to new Intermittent Facilities remains unclear. Alinta would encourage the IMO to use the entry of the Collgar wind farm as an opportunity to work through the practical application of the methodology well ahead of the capacity certification process for the 2014/15 Capacity Year.
- Given the significant value change associated with RC\_2010\_25, even after the modifications proposed by the IMO in the Draft Rule Change Report, Alinta remains concerned about the impact the rule change proposal has on the perceived levels of risk associated with investing in the WEM. The perceived increase in risk may extend to potential investments in conventional generation projects, rather than being limited to intermittent projects.
- To the extent that the modified IMO proposal outlined in the Draft Rule Change report for RC\_2010\_25 accurately reflects an Intermittent Facility's ability to support the secure and reliable operation of the WEM, Alinta sees no reason why intermittent projects that have not yet been assigned Capacity Credits should not be fully exposed to this new methodology.
- For existing Intermittent Facilities, Alinta welcomes the 3-year transition period contemplated by the modified IMO proposal outlined in the Draft Rule Change report for RC\_2010\_25. However, Alinta considers there is significant merit in the IMO considering a longer transition period (or 'grandfathering') for existing Intermittent Facilities in order to minimise increases in the perceived level of risk associated with investing in the WEM.

Finally, if the number of Capacity Credits assigned to an individual Facility are to reflect the Facility's ability to support the secure and reliable operation of the WEM in peak Trading Intervals across twelve days, Alinta considers it appropriate that the basis on which Capacity Credits may be assigned to Demand Side Programmes be reviewed to ensure this occurs on an equitable basis.

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**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\_25 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.

While future developers of intermittent generation projects would be able to account for any reduction in revenue from Capacity Credits by increasing contract and/or energy prices in power purchase agreements, Alinta estimates that the modified IMO proposal outlined in the Draft Rule Change report would materially reduce its EBITDA.

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**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 the IMO in its Draft Rule Change Report 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.