
Wholesale Electricity Market Rule Change Proposal Submission Form

RC_2010_25 and RC_2010_37: Calculation of the Capacity Value of Intermittent Generation

Submitted by

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Date submitted:	30 November 2011

Submission

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

Vestas notes the latest steps taken by the IMO in relation to the significantly amended Rule Change 25 of 2010, and we have a number of comments on this. We also take the opportunity to confirm our support for RC 37 of 2010.

In previous submissions we have outlined the reasons for our support of RC 37 so will not do so again here. We continue to oppose RC 25, partly for reasons of impact on investors and increasingly due to the unfortunate process undertaken by the IMO over the past year.

The latest consultation period seemingly ignores comments by many submitters during October 2011 that the changes to RC 25 have been so substantial that the process should be terminated and the revised RC 25 be submitted as a new Rule Change so that it can be properly considered.

We note in particular that System Management, one of the few supporters of the original version of RC 25, has advocated this approach in its submission made on 21 October 2011.

In addition to these important matters of process, we note some particularly stark comments contained in the same submission from System Management which seem to remove any credibility or rationale that RC 25 (in its original wording but also in its later incarnations) might have ever had in relation to system security.

Most notably, System Management conceded that RC 25 did little to address any issues it had in managing system security at times of high demand:

System Management wishes to add that the major concern is not the capacity credits assigned to a facility but rather the contribution that the various types of generation that is procured during the reserve capacity cycle make to system security.

Furthermore, System Management added:

System Management believes that the contributions cannot be influenced in realtime however it can be done as part of the Reserve Capacity procurement process.

This can be facilitated by predetermining the minimum quantities of various types of generation and demand side resources that must be sourced. This is already taken into account for Demand Side options in development of the availability curve.

Such comments underline what Vestas and many other investors in Western Australia have been saying all along. It doesn't matter what level of capacity credits are paid to generators under the Rules if your major concern is security of supply at peak times. There is nothing in RC 25 that will have a material impact in addressing such issues.

If the gas doesn't flow, the wind doesn't blow or the sun doesn't shine then there is nothing contained in RC 25 that would help System Management in such circumstances, and now that this has been conceded then it makes much of the IMO's initial support for the Rule Change quite redundant.

In addition, the "U factor" that was introduced in one of the latter incarnations of RC 25 also seems misplaced. We also reiterate our strong view that such a concept should have always faced the proper scrutiny that any other new Rule Change would have to undergo.

As noted previously, we consider that if the IMO board wishes to retain the confidence of private sector investors then it should be clearer about the terms upon which it engages so-called expert consultants such as Sapere and it should reconsider the manner in which it advances Rule Changes where it is also the proponent.

As noted in its original submission on this topic, Vestas understands the importance that the IMO, the Office of Energy and System Management places on the issue of security of supply. However, Vestas strongly disagrees that the Reserve Capacity Mechanism (RCM) is the best measure to achieve this.

Rather than damage the business case for renewable energy investors in WA by implementing RC 25, the goal of security of supply could be better met, for example, by revising WA's system reserve margins or investing in wind forecasting software as has been done by the Australian Energy Market Operator (AEMO) with significant success.

The existing arrangements for valuing capacity credits may well be in need of an overhaul, and that is a matter that most if not all members of the Renewable Energy Generation Working Group (REGWG) have agreed upon.

But RC 25 of 2010 has never been a satisfactory solution to this issue, and the ad-hoc manner of consultation and revision of the original Rule Change proposal that has been undertaken up to this point has left investors with serious concerns over the process.

We respectfully suggest that the IMO abandons any further progress of RC 25, and instead implements RC 37 in its place.

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

Vestas has previously provided commentary regarding the ways in which RC 37 facilitates the Market Objectives, in most if not all cases far better than RC 25 would do. We have not changed our view on this.

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.

N/A

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

N/A