
Wholesale Electricity Market Rule Change Proposal Submission Form

RC_2010_28 Capacity Credit Cancellation

Submitted by

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Submission

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

Background

The Wholesale Electricity Market (WEM) experienced an instance of settlement in default as a result of a Market Participant, assigned Capacity Credits, failing to pay outstanding Capacity Refunds. While the circumstances of this Facility were well known prior to the failure of the Market Participant to pay outstanding invoices, and the IMO and others knew in advance it was not able to provide Reserve Capacity into the WEM, the Market Rules did not provide a mechanism to ensure that appropriate funds could be sourced from the particular Market Participant.

The Market Rules currently do not have a mechanism in which if it is clear that a Facility allocated Reserve Capacity is not going to be able to provide that capacity to the WEM in Reserve Capacity cycle, the IMO has no way of cancelling the Capacity Credits applicable to that Facility. This ultimately results in all Market Participants being subject to short-pay arrangements, such as the situation that is presently occurring in response to the settlement in default of a particular Market Participant.



The IMO has developed RC_2010_28 in order to address the inconvenience that short-pay arrangements have on other Market Participants

Rule Change Proposal

RC_2010_28 seeks to amend the Market Rules, such that, should the IMO become aware, either as a result of the progress reports provided by the Market Participant or as result of any additional information it may have available to it, that a Facility will not make available its capacity it may issue a Notice of Intention to Cancel Capacity Credits.

Proposed clause 4.20.8 requires that the IMO issue a formal notice providing details and the reasoning behind the IMO's intention to cancel the Capacity Credits that are linked to that Facility.

Proposed clause 4.20.10 will require the IMO to make a decision taking into account any submission made by the Market Participant.

The proposed clause 4.20.12 would require the IMO to publish on the Market Web Site the details of any Facilities that have had their Capacity Credits cancelled, the associated timeframes for the cancellation and the reasons why.

The proposed clauses 4.27.10 and 4.27.10A will take into account the situation where the Facility has had its Capacity Credits cancelled and will therefore not be required to provide the IMO with additional progress updates as they would no longer hold Capacity Credits.

Alinta's Views

Alinta agrees that the short-pay arrangements that emerge following the failure of a Market Participant to pay Reserve Capacity Refunds, due to the clearly foreseeable inability of that Facility to provide Reserve Capacity into the WEM, is an inconvenience to other Market Participants. This inconvenience is principally focused on the settlement process and the length of time the short-pay takes to rectify under the current Reserve Capacity Cycle. RC_2010_28, as proposed by the IMO, appears to provide a potential solution to this issue.

However, Alinta is not convinced that the RC_2010_28 is an appropriate solution to the inconvenience that occurs in the settlement process. Alinta is concerned that the proposal may be difficult to implement in practice and creates further risks around the current processes the IMO undertakes to certify Facilities.

In particular, proposed clause 4.20.9 (b) requires that the IMO provide details of the evidence considered in determining that no capacity associated with the Capacity Credits assigned to the Facility will be made available to the Market for the entire capacity year. This evidence that will support the reasoning behind the IMO cancelling Capacity Credits may in practice be difficult to comprehensively demonstrate that a Facility is unable to provide any capacity for the full year of the Reserve Capacity Cycle.

Further, there is a risk that RC_2010_28 reduces the incentive upon the IMO to make sure that the processes for certifying Facilities and the requirements around providing Reserve Capacity Security actually achieves the principle aim of the Reserve Capacity Mechanism in making available the capacity to the Market when it is required. RC_2010_28 increases the mechanisms available to the IMO **after** Facilities have been certified thereby potentially reducing the level of scrutiny the IMO must undertake prior to the certification of a Facility.

Alinta requests that the IMO provide further guidance to the Market as to the costs and benefits of RC_2010_28 in order to assess the relative impacts of the proposed solution.

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

Alinta does not believe that RC_2010_28 in its current form impacts materially on better achieving the current 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.

The changes to the Market Rules contemplated by RC_2010_28 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_28 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.