
Wholesale Electricity Market Rule Change Proposal Submission Form

RC_2012_03 Assignment of Capacity Credits to network Control Service Facilities

Submitted by

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Submission

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

Background

The concept of Network Control Services (NCS) has existed in the Wholesale Electricity Market (WEM) since the start of the market in September 2006. NCS is provided by a generator or demand side participant to the network operator as an alternative to capital investment to address network related issues such as for example voltage stability and transfer limits on transmission lines. Where economic and safe to do so, NCS can provide a valuable alternative to capital investment in the network and help to reduce long term costs of maintaining and operating the South West Interconnected System (SWIS) to the benefit of all of its users.

NCS providers can in general provide both the NCS to the network operator (Western Power) and capacity to the SWIS. NCS providers have therefore since market start been able to be accredited with Certified Reserve Capacity (CRC) and receive capacity credit payments.

Issues

The Independent Market Operator (IMO) has identified a number of issues relating to the treatment of NCS Facilities and the interaction with the capacity market. The issues are as follows:

1. NCS Facilities and Facilities that have been assigned Long Term Special Price Arrangements (LTSPA) are not assigned Capacity Credits for their CRC in clause 4.20.5A. This is despite these Facilities being compelled by the Market Rules to apply for Certified Reserve Capacity. As a result, the CRC of these Facilities is not taken into account when determining whether there is a shortfall in Reserve Capacity.
2. Likewise, clause 4.15.2 of the Market Rules also does not consider CRC of NCS Facilities in the calculation to determine the Reserve Capacity Auction Requirement.
3. Market Participants with new Facilities, including upgrades to existing Facilities, must provide Reserve Capacity Security to the IMO as surety for additional CRC that the Market Participant has committed to deliver to the WEM. This is covered by clause 4.13.9 of the Market Rules. However, that clause does not cover Facilities that are subject to a NCS contract. NCS Facilities therefore are not obliged to provide Reserve Capacity Security to the IMO.
4. There are a number of cross referencing errors between clauses 4.13.9 and 4.1.13.

Change Proposal

The IMO submitted Rule Change Proposal 2012 03 “Assignment of Capacity Credits to network Control Service Facilities” on 27 March 2013.

The IMO proposed to make amendments to amend a number of clauses in chapter 4 of the Market Rules to rectify the issues identified above. In particular, the IMO proposed to:

1. ensure that NCS Facilities and Facilities subject to a LTSPA are automatically assigned Capacity Credits,
2. ensure that NCS Facilities are barred from entering a Reserve Capacity Auction,
3. explicitly take into account CRC provided by NCS Facilities and LTSPA Facilities when calculating the Reserve Capacity Auction requirement and in calculating any shortfall requirements,
4. ensure that NCS Facilities are required to provide Reserve Capacity Security in line with the general requirement for all capacity providers to do so,
5. rectify the identified cross-referencing errors.

Perth Energy's Views

Perth Energy supports the proposed changes to the Market Rules.

The ability of NCS Facilities to provide both network support and contribute to system capacity using the same Facility should be welcomed if this can drive economic efficiencies in delivering services to users of the SWIS. It will be important that Western Power takes into account the potential value of capacity payments that NCS providers may receive when assessing offers from NCS providers against alternative solutions. Otherwise, it may be possible for NCS providers to be significantly overcompensated for its services by extracting the value of its capacity both from Western Power for the provision of NCS and from the market for provision of CRC. Perth Energy welcomes the proposal to rectify some of the inconsistencies that currently exist in the Market Rules relating to the treatment of CRC from these Facilities.

The issues around NCS Facilities and CRC have been debated for quite some time, including with the Public Utilities Office (PUO), the Economic Regulation Authority (ERA) and by the members of the Market Advisory Committee (MAC). Perth Energy's main concern in relation to the issue of providing CRC payments to NCS Facilities has been to ensure that these Facilities are able to deliver both of the services that they are being paid for. In other words, if they are being paid a contract fee from Western Power for NCS and receive CRC payments at the same time then those Facilities must be available to provide capacity to the SWIS.

Perth Energy understands from discussions at the MAC and conversations with the IMO that NCS Facilities will be required to make their capacity available to the market on par with other Facilities receiving CRC payments. Perth Energy would expect that non delivery of capacity, other than for planned outage reasons, would attract capacity refund payments for NCS Facilities as is the case for all other Facilities. Perth Energy would welcome confirmation from the IMO that this will be the case.

Perth Energy welcomes the proposed changes to ensure that capacity from Facilities that are subject to either a NCS or a LTSPA will be taken into account when assessing the level of any capacity shortfalls in the WEM as well as the volume requirement for any Reserve Capacity Auction. Continuing to exclude the capacity provided by these facilities could lead to an understatement of available existing capacity, which in turn would lead to an unnecessary and potentially costly overinvestment in capacity in the SWIS.

The proposed changes to ensure that NCS Facilities also provide Reserve Capacity Security are in Perth Energy's view important to both ensure a level playing field between capacity providers and provide end users with some level of insurance in case of new capacity being late or completely failing to be delivered.

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

Perth Energy supports initiatives that may bring about better efficiencies and cost reductions in the delivery of electricity to end users. Allowing Western Power to use NCS instead of relying on more traditional direct capital investment in its network where this is practical and economical would in our view positively impact on the achievement of Market Objective¹(a)

¹ The objectives of the market are:

(a) to promote the economically efficient, safe and reliable production and supply of electricity and electricity related services in the South West interconnected system;

relating to economic efficiency. The positive impact on Market Objective (a) is further enhanced by ensuring NCS Facilities and LTSPA Facilities' contribution to system capacity is properly accounted for to avoid unnecessary contracts for shortfall capacity. Both of these effects are also likely to positively impact on Market Objective (d) by lowering the long-term cost of electricity to end users.

Perth Energy also considers that Market Objective (b) and (c) would be positively impacted by the amendments to ensure that NCS Facilities also provide Reserve Capacity Security. This change will remove a potential source of positive discrimination of NCS Facilities and therefore level the playing field. This would ultimately be positive for competition in the provision of capacity in the SWIS.

Perth Energy has not identified any impacts on the remaining Market Objective.

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.

Perth Energy has not identified any impacts to our business.

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

Perth Energy will not require any lead time to implement the proposed changes.

(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.