
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

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

This proposed rule change acts to correct a number of oversights in the market rules relating to, amongst other issues, the assignment of capacity credits to facilities that provide Network Control Services (NCS) and facilities with a pre-existing Long Term Special Price Arrangement (LT SPA). The case presented is that such facilities are not assigned capacity credits under the rules.

The rules are complex in this area but Synergy's interpretation differs from the IMO's suggestion in that Synergy believes capacity credits can be assigned to Certified Reserve Capacity (CRC) associated with pre-existing LT SPA facilities where a bilateral trade declaration has been made (as a sub-set of capacity so nominated under 4.14.1(c)):

Assuming that the circumstances dealt with under 4.14.7(c)i do not apply and also providing that such capacity falls within the definition of the set of active offers, for the purposes of testing bilateral trades as set out in Appendix 3, i.e. assuming that it is not excluded from the active offer set by the operation of variable X[a] of Appendix 3 on account of being subject to a bilateral trade, it follows that irrespective of whether the Reserve Capacity Auction is cancelled, capacity credits can be assigned to CRC associated with pre-existing LT SPA facilities where a bilateral trade declaration has been made which does not result in the IMO issuing a notice under 4.14.7, that such capacity cannot be traded bilaterally. However, where the Reserve Capacity Auction is cancelled, the IMO cannot assign capacity credits to CRC associated with pre-existing LT SPA facilities (not bilaterally traded) as such capacity falls outside

capacity notified by the IMO under 4.14.9¹ and hence cannot be assigned capacity credits under 4.20.5A(a).

In regard to CRC associated with facilities subject to an NCS contract, no provision exists for the IMO to assign capacity credits where the Reserve Capacity Auction is cancelled for the same reason related to CRC associated with pre-existing LT SPA facilities. However, where it is not cancelled and assuming that the action of Appendix 3 variable X[a] removes such capacity from the set of active offers to be considered in the auction algorithm prevails over the implied requirement under 4.14.10 that such capacity be made available to the auction, then it could be concluded that under 4.20.5A(b) the IMO can assign capacity credits to such capacity providing the holding participant notified it to the IMO by pursuant to 4.20.1(c)iv and the IMO confirmed that notification under 4.20.2.

Suffice to say that this area of the rules is complicated by the number of interacting clauses and the interplay of Appendix 3 so Synergy supports actions to clarify the application of the rules in regard to assigning capacity credits to CRC associated with a pre-existing LT SPA or subject to an NCS contract.

Automatic assignment of capacity credits

At its core, the proposed rule change seeks to ensure that facilities subject to an NCS contract and those associated with a pre-existing LT SPA are **automatically** assigned capacity credits. While Synergy would support the automatic assignment of capacity credits in regard to pre-existing LT SPA facilities, the question is open with regard to NCS facilities.

Capacity associated with a pre-existing LT SPA is capacity that has been cleared in a previous auction. The purpose of the up to 10 year tenure of an LT SPA is to provide the participant with access to a guaranteed payment stream to secure project financial close, subject to the proviso that facility has its reserve capacity recertified every year. Given this purpose, unless capacity credits are automatically assigned then doubt may arise as to whether the payment stream is in fact guaranteed for the life of the LT SPA. This doubt or risk to the participant is removed if capacity credits are automatically assigned and also gives effect to the purpose of the LT SPA arrangement.

Synergy notes that the rules mandate via 5.2A.2 that a participant with a facility entering into an NCS contract must apply for CRC in respect of the facility. Synergy wishes to broaden this rule change proposal by removing this requirement. In the context of a market, mandating a particular action removes the right of an entity to participate according to its commercial objectives, which is the basis of the efficient allocation of resources across the economy. NCS is a network service and as such is distinct and different from reserve capacity. Mandating a particular action in a market indicates regulatory intervention in necessary to correct what otherwise would have resulted in a market failure. Synergy's view is that 5.2A.2 is not correcting a potential market failure but does remove the legitimate right of an entity to make its own commercial decisions about participating in the Reserve Capacity Mechanism. An entity, even one providing NCS, should have the right to choose whether or not to take on the Reserve Capacity Obligations which are different from or an adjunct to its NCS obligations. The right of the entity should not be unfettered but prevail and so an entity should have the freedom to choose whether it provides NCS plus CRC or NCS only. If it is in the entity's best interest to provide reserve capacity then it will do so and be

¹ It does so because such capacity cannot be included in information provided by the holding participant to the IMO under 4.14.1(c) and furthermore, it is excluded from bilateral trade testing in Appendix 3 by the operation of variable X[a] and hence the capacity cannot be determined by the IMO as required by 4.14.9(b).

rewarded as provided under the rules in providing a second service to that of NCS. Accordingly, Synergy believes there is a case for the market to debate whether 5.2A.2 (and the associated 5.2A.1 which mandates facility registration) should be removed from the rules as the market failure case is not made, thereby relieving an entity with capacity subject to an NCS contract of the mandatory obligation apply for CRC.

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

Synergy notes that the proposed change will have negligible impact on its business or IT systems.

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

Synergy could implement this proposed rule change immediately.