
Wholesale Electricity Market Rule Change Proposal Submission Form

RC_2013_11 Selection of the 12 Peak Trading Intervals Used for Calculation of IRCR

Submitted by

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Submission

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

Background

The Wholesale Electricity Market (WEM) operates separate markets for capacity and energy. Providers of Certified Reserve Capacity (CRC), which typically is Scheduled Generators, but also includes intermittent generators and demand side providers, are paid for the CRC that they provide through bilateral contract payments or the default payment mechanism provided by the Independent Market Operator (IMO). The costs associated with CRC payments are recouped from Market Customers according to their relative share of the peak demand in the preceding Hot Season.

The level of CRC requirement is determined by being able to meet the forecast 1/10 year level of peak demand for the South West Interconnected System (SWIS) with the largest generator on the system on outage and a requirement to keep unserved energy levels below 0.002% of annual energy consumption. The requirement to be able to meet the 1/10 year demand peak with the largest generator unit on outage is the dominating criterion. The requirement for CRC is therefore closely linked to peak system load.

Market Customers are assigned Individual Reserve Capacity Requirements (IRCR) which form the basis of their share of the cost of providing CRC in the WEM. IRCR is currently assigned according to the following steps:

1. Determine the 4 highest demand days in the preceding Hot Season
2. Select the 3 highest demand Trading Intervals from those 4 days to form the 12 IRCR Trading Intervals.
3. For each individual load, determine the median MW value of the 12 IRCR Trading Intervals.

For electricity retailers, the median MW values for each load in the portfolio are aggregated to form a portfolio value. The electricity retailer's share of the total CRC cost is then determined (with some refinements for non-temperature dependent loads) as the ratio of portfolio IRCR to the total IRCR calculated for all Market Customers.

Issues

The IMO has identified a problem with the selection of the 4 highest demand days. The Market Rules are currently ambiguous and are being interpreted so that it is the 4 days with the highest total energy demand (MWh) rather than the 4 days with the highest individual Trading Interval demand that are being selected in step number 1 to pick out the 12 IRCR Trading Intervals. The requirement for CRC is very much linked to the absolute 1/10 year peak system demand (i.e. in a single Trading Interval) which may, but does not necessarily coincide with the days when the system experience the highest total energy demand over a 24 hour period.

This issue was exposed during the 2012/13 Hot Season when 26 January 2013, being a public holiday (Australia Day) was selected as one of the 4 days due to its overall high demand. However, 26 January 2013 would not have been picked had the criterion been limited to selecting the 4 days with the highest single Trading Interval demand. This criterion aligns better with the requirement that underpins the requirement for CRC.

Change Proposal

The IMO submitted Rule Change Proposal 2013 11 "Selection of the 12 Peak Trading Intervals Used for Calculation of IRCR" on 14 May 2013

The IMO proposed to make amendments to the Market Rules so that the IRCR Trading Intervals are based on the 4 Trading Days with the highest individual Trading Interval demand rather than the highest overall demand throughout the Trading Day.

Perth Energy's Views

Perth Energy supports the proposed changes to the Market Rules.

The proposed changes by the IMO would more closely align the allocation of IRCR to Market Customers with the impact that those Market Customers have on the need for procuring CRC. The changes would therefore in Perth Energy's view bring about a better reflection of the costs of capacity provision in the WEM.

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

Perth Energy considers that the proposed amendments would improve cost reflection in the WEM and therefore positively impact on the achievement of Market Objectives¹ (a) relating to economic efficiency, (b) relating to competition and (d) relating to minimising the long term costs of electricity.

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.

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;
- (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.