



**Wholesale Electricity Market
Rule Change Proposal Submission Form**

RC_2013_21 Limit to Early Entry Capacity Payments

Submitted by

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Submission

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

Background

The Wholesale Energy Market (WEM) operates a market for generation capacity separately to the market for energy. Providers of capacity are accredited with Certified Reserve Capacity (CRC) which can be traded bilaterally with retailers or through the Independent Market Operator (IMO) at a default price.

The capacity mechanism in the WEM is supposed to incentivise timely and efficient investment in generation capacity to satisfy customers' electricity demand at all times, including during peak system demand conditions. New generation in the WEM generally aims to be fully commissioned by the start of a new Capacity Year, which starts on 1 October each year. Commissioning by this time ensures that the project receives the financial payments associated with CRC in full and is not exposed to the associated financial payments related to not having CRC available to the system.

Newly commissioned generators may experience some teething problems in the first few months following commencement of commercial operation. Until these issues have been

identified and rectified the CRC may be less reliable compared to CRC from a Facility that has been in commercial operation for some time.

To reduce the risk of capacity from newly commissioned Facilities being unavailable during the first summer following commissioning a Rule Change Proposal, RC 2009 11 “Changing the Window of Entry into the Reserve Capacity Market”, was approved and implemented by the IMO in 2009. RC 2009 11 allowed new capacity to start receiving capacity credit payments as early as 1 June in the Capacity Year before the capacity was certified for subject to being fully commissioned. In other words, RC 2009 11 allowed capacity payments for up to an additional 4 months prior to the target date for entry of this capacity into the market. This financial incentive to commission early has provided new Facilities with potentially additional time to rectify any teething problems ahead of the first summer when the capacity may be needed during system peak times.

Since the introduction of RC 2009 11 there have been significant payments for early entry capacity to the tune of about \$12 million. This additional cost is recovered from Market Customers. During this period the WEM has also moved from being in a relatively tight capacity position to having an excess of 564MW (11%) for the 2015/16 Capacity Year.

The IMO has identified that allowing additional payments for early entry of capacity at times where the system has an adequate capacity cushion may be inefficient and represent poor value for customers.

Change Proposal

The IMO submitted Rule Change Proposal 2013 21 “Limit to Early Entry Capacity Payments” on 10 January 2014.

The IMO has proposed to amend the Market Rules to remove the current default option allowing new capacity access to early payments for up to four months prior to the start of the Capacity Year in which they are first certified. Instead, the IMO has proposed that early payments only be available in years where the forecast Reserve Capacity Requirement has not been met.

The IMO has also proposed to amend the Market Rules so that capacity that enters the WEM via the Early Certified Reserve Capacity (ECRC) route is treated in the same way as other capacity. Specifically, the IMO has proposed that ECRC should also be able to receive payments as early as 1 June in the year before the Capacity Year in which the capacity is first certified for, but only in instances where the forecast Reserve Capacity Requirement has not been met.

Perth Energy’s Views

Perth Energy supports the IMO’s proposed amendments to the Market Rules.

Perth Energy considers it inefficient to make payments for early entry of capacity in years where there is a genuine oversupply of reliable capacity. In this situation there is no tangible benefit derived for customers in the WEM such as any increase in system security and reliability. Any teething problems that the commissioning generator may experience can be resolved, even during the Hot Season, without impacting on the ability to maintain the demand and generation balance at times of system peak.

Although the WEM is notionally in an oversupply scenario for capacity at the moment this may reverse in future and it may again become important to provide incentives to ensure that new capacity that is being commissioned is operating reliably by the time it is needed in its first Hot Season. Perth Energy is therefore supportive of the IMO's proposal to allow continued early payments in years when the forecast Reserve Capacity Requirement has not been met.

Perth Energy also supports the proposed requirement for the IMO to inform the market of whether early entry capacity payments will be available in early September of Year 1 of the Capacity Cycle – i.e. about two years prior to the start of the Capacity Year for which reserve capacity obligations commence. An early indication of the availability of early payments is necessary to allow for the necessary adjustments to construction and commissioning plans to be able to deliver the new Facility ahead of the normal 1 October start date.

Perth Energy continues to be extremely concerned with the significant amount of CRC awarded to demand side providers of capacity. For the 2015/16 Capacity Year, a total of 551MW of CRC has been awarded to demand side providers. This represents almost the entire oversupply of CRC for that year (564MW).

We remain of the view that demand side providers are not capable of delivering the same CRC product that conventional generators deliver. Evidence is that demand side products are not dispatched into the energy balancing market as generators are. They also do not have the same significant financial incentives to stay around and ensure that they are able to deliver capacity to the system as conventional generators do. This is because their investment in their Facility has an alternative value (the primary purpose of the Facility) and their investment would not be stranded if capacity payments from the WEM were no longer available. Conventional generators do not have any alternatives to sourcing revenue from the provision of energy and capacity and hence have a much stronger incentive to perform well in the WEM.

Some steps are being taken to improve the value of the current demand side provision of capacity through RC 2013 10 "Harmonisation of Supply-Side and Demand-Side Capacity Resources". The steps proposed in RC 2013 10 include increased availability requirements and a requirement for telemetry at demand side provider sites to allow System Management close to real time visibility of the Facility's ability to provide capacity. Although the proposed amendments are improvements on the current situation, they also miss the point. We do not believe that demand side should be provided with CRC.

In our view, demand side load reduction should not be allocated CRC but should instead have the opportunity to be competitively procured in the market by retailers for CRC replacement value if such value in fact exists, or as a complimentary ancillary service of load reduction to System Management.

Perth Energy suggests to make the following minor change to the wording of new clause 4.1.16A: "If the Reserve Capacity Auction is cancelled, then, on the day that the IMO publishes the notice under ~~this~~ clause 4.1.16, the IMO must:...". The notice that is referred to is published under clause 4.1.16 and not "this" clause 4.1.16A.

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

Perth Energy considers that the proposed amendments to the Market Rules would reduce the economic inefficiencies associated with paying for early entry capacity at times where there is little or no benefit derived from the early entry of the capacity. Perth Energy considers that the proposed amendments are therefore likely to improve both the short term and long term efficiency of electricity supply in the WEM and minimise the long-term cost of electricity supply in the WEM. Perth Energy considers the proposed amendments will facilitate achievement of Market Objectives¹ (a) and (d).

Of more significance, however, Perth Energy considers reviewing demand side classification as CRC will have far more positive impact on the market than limiting the changes to the above minor adjustments.

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 on our IT or other business systems.

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 (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.