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## Wholesale Electricity Market Rule Change Proposal Submission Form

### RC\_2013\_21 Limit to Early Entry Capacity Payments

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#### Submitted by:

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#### Submission

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

#### Background

A key objective for the Wholesale Electricity Market (WEM) is to ensure that electricity and related services are provided reliably and economically. The provision of capacity in Western Australia is achieved through the Reserve Capacity Mechanism - a set of processes through which the IMO determines the amount of generation and Demand Side Management capacity required to meet future demand and reliability requirements.

Under the initial Reserve Capacity Mechanism design the timeframe for new capacity to enter the market was a four-month window centralised around the start of a new Capacity Year on 1 October (between 1 August and 30 November). This timeframe allowed new Facilities to enter the market and receive the benefit of Capacity Credits and any associated income stream from 1 August, and aimed to reduce the potential for post-commissioning reliability problems to continue into December - the first month of the summer peak demand period.

During 2009 the market, concerned about the risk of new generators commissioning late and impacting summer reliability, agreed to bring forward the four month window of entry for new entrant generators to 1 June, with all capacity to be fully available no later than 1 October each year<sup>1</sup>. It was anticipated that this proposal would have a net benefit to the market by minimising the risk associated with bringing new capacity into service, by encouraging new Facilities to enter the market as early as possible, but also allowing an extra period of post-commissioning for new generators to remove technical and operational issues inevitably present after commissioning prior to the summer peak demand period.

At the time both Synergy and Verve Energy supported the Rule Change Proposal to shift the window of entry. Specifically, Synergy noted that “on balance, Synergy believes the incentives created to avoid lateness of facilities and any resulting SRC outweighs the potential costs of a shifted window of entry for capacity payments”. Likewise, Verve Energy considered that the revised window “strikes the appropriate balance between the risk that commissioning delays will impact on security of supply and potential increased costs of procuring capacity two months earlier”. However, it was both Synergy’s and Verve Energy’s view that this Rule Change Proposal was intended to apply to Scheduled Generators and Non Scheduled Generators only (as these are the Facility types that are likely to face the risk of commissioning delays and/or post commissioning technical and operational issues that the initial Rule Change Proposal was intending to minimise the effect of).

The drafting of the Amending Rules to shift the window of entry did not distinguish between conventional generation and Demand Side Programmes (DSPs). As a result of this some \$12.4M (to date) in early payments for new capacity has been made by the market.

During 2012, Synergy submitted a Rule Change Proposal to limit the early entry capacity payments to Scheduled Generators and Non Scheduled Generators only<sup>2</sup>. Specifically, Synergy submitted that there is a technical difference between generation capacity and other forms of capacity such as DSPs and that this difference served as a basis on which to differentiate access to early capacity payments.

While a number of participants, including Verve Energy, agreed with Synergy’s sentiment, the IMO rejected the Rule Change Proposal on the basis that it considered the proposed Amending Rules were inconsistent with the Wholesale Market Objectives (specifically Wholesale Market Objective (c)), despite Synergy’s legal advice to the contrary.

During the Rule Change Process the IMO presented a counter-proposal, which was to remove the early entry payments in their entirety. There was not a lot of support from Market Participants for this counter-proposal, however, it was suggested that the IMO consider amending the Market Rules to only trigger the early entry capacity payments in times of tight supply.

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<sup>1</sup> See RC\_2009\_11, available on the IMO’s website: [http://imowa.com.au/rules/rule-changes/wem-rule-changes/commenced/rule-change-rc\\_2009\\_11](http://imowa.com.au/rules/rule-changes/wem-rule-changes/commenced/rule-change-rc_2009_11)

<sup>2</sup> See RC\_2010\_10, available on the IMO’s website: [http://imowa.com.au/rules/rule-changes/wem-rule-changes/rejected/rule-change-rc\\_2012\\_10](http://imowa.com.au/rules/rule-changes/wem-rule-changes/rejected/rule-change-rc_2012_10)

## Summary of this proposal

The IMO's Rule Change Proposal: Limits to Early Entry Capacity Payments (RC\_2013\_21) proposes to maintain the early entry capacity payment scheme but remove access to it when capacity is in surplus.

The IMO will determine early entry payment accessibility in year one of the Reserve Capacity Cycle (i.e. at the time Capacity Credits are assigned in respect of two years ahead) based on whether the Reserve Capacity Requirement is met from existing capacity. Where existing capacity falls short of the Reserve Capacity Requirement, any new capacity will be eligible for the early entry payments. This timing will allow investors to factor in this revenue stream as applicable.

## Synergy's<sup>3</sup> views on the Rule Change Proposal

Synergy notes that clause 4.1.26 of the Market Rules has been amended a number of times since market start and currently includes different rules for a number of Reserve Capacity Cycles. Synergy is concerned that regular amendments to this clause may undermine the stability and integrity of the Reserve Capacity Mechanism. Synergy is supportive of the rule change being as future-proofed as possible i.e. to enable the incentive mechanism when supply is tight, but not cost the market when the early entry is not required.

As such, Synergy supports the IMO's proposal for a more dynamic early entry capacity payment mechanism by limiting access to early entry payments where the Reserve Capacity Requirement has been met from existing capacity. Synergy considers that this proposal appropriately reduces market payments where no benefits accrue but maintains the flexibility to invoke the early payment incentive where a potential shortfall exists.

While the IMO has not proposed to reopen the arguments about the conceptual merit of early entry nor the arguments around the merit of both generation and demand side capacity having access to such a regime, Synergy considers that these remain important issues that should be addressed as part of the State Government's holistic review of the WEM.

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<sup>3</sup> Effective from 1 January 2014, the Electricity Generation Corporation trading as Verve Energy changed its name to Electricity Generation and Retail Corporation trading as Synergy. This name change was instituted to reflect the merger of Verve Energy and the Electricity Retail Corporation trading as Synergy as detailed in the Electricity Corporations Amendment Bill 2013 (WA) (passed by the parliament of Western Australia on 12 December 2013 and received Royal Assent on 18 December 2013).