RCP | Rule Change Panel

Wholesale Electricity Market Rule Change Proposal Submission

RC_2017_06
Reduction of prudential exposure in the Reserve Capacity Mechanism

Submitted by

Name:	Angelina Cox
Phone:	(08) 6282 7459
Email:	angelina.cox@synergy.net.au
Organisation:	Electricity Generation and Retail Corporation trading as Synergy
Address:	219 St Georges Terrace Perth 6000
Date submitted:	18 January 2018

Submissions on Rule Change Proposals can be sent by:

Email to: rcp.secretariat@rcpwa.com.au

Post to: Rule Change Panel
Attn: Executive Officer
C/o Economic Regulation Authority
PO Box 8469
PERTH BC WA 6849

---

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

Electricity Generation and Retail Corporation trading as Synergy (**Synergy**) welcomes the opportunity to provide feedback to the Australian Energy Market Operator (**AEMO**) on its Rule Change Proposal: Reduction of Prudential Exposure in the Reserve Capacity Mechanism.

<u>Main concern</u>:

The proposed changes to Appendix 5 will negatively impact on Synergy relative to other Market Participants because the changes will result in the Individual Reserve Capacity Requirements (**IRCR**) liability period being maintained when transitioning from non-interval meter to interval meter occurs.

When a non-interval meter is upgraded in month n there are no changes to the notional meter IRCR or interval meter IRCR until month n+4. In this month notional meter IRCR will be reduced, interval meter IRCR may increase depending on date of 4 PTIs and meter installation. This occurs regardless of whether or not the customer transitions to another retailer. So, even though the customer transitions on month n Synergy will continue to be liable for the IRCR until month n+4, and, therefore, Synergy is disadvantaged in this scenario compared with other transitions between retailers.

Even though the issue is of low to moderate materiality, Synergy believes that such disadvantage goes against Wholesale Electricity Market (**WEM**) objective to “encourage competition among generators and retailers in the SWIS”. Synergy would like to be in a market with a level playing field to all Market Participants.

In order to solve this problem, Synergy would like to bring to the Rule Change Panel’s (**RCP**) attention a pre-existing issue which affects Synergy regardless of this Rule Change.

Essentially every time a non-interval meter is upgraded the interval meter share of the market-wide IRCR goes up by the IRCR attributable to that meter (calculated based on the peaks in month n-3 on the basis the new meter is a "new interval meter") and the Notional Wholesale Meter share goes down by the average amount of a non-interval meter.

Therefore, to the extent that the transferred meter is greater in size than the average non-interval meter, the Notional Wholesale Meter share of the IRCR overstates Synergy's "fair share" proportional to the amount the new interval meter exceeds the average non-interval meter.

Synergy would like to propose an allocation mechanism that is fair to all market participants.

It will require the following criteria to be met:

- Data flow from Western Power to AEMO of non-interval meter historical consumption associated with all new interval meters that are an upgrade from non-interval meter;
- An estimating algorithm to be developed to translate the consumption history to an estimated capacity;
- During the lag period after the non-interval meter is upgraded and before interval data is available an increase of capacity requirement for the receiving Market Customer and a corresponding reduction of the Notional Meter IRCR by the estimated capacity;
- After the lag period and prior to the time when the new meter is incorporated in the summer 12 PTI capacity determination each month the new interval meter IRCR should be subtracted from the Notional Meter IRCR; and
- Non-interval meter upgrades would not be included in the Notional Meter capacity adjustment mechanism in Step 5A of Appendix 5.

Synergy notes that this issue, and Synergy's proposed solution, is closely related to another issue that the RCP has highlighted in its Draft Report in footnote 3 on page 14. Specifically, the issue whereby it appears Synergy's IRCR is only increased for meters that upgraded in month n-3.

Synergy has evidence that most non-interval meters that upgrade to interval meters are in the order of 10-15 times bigger than the average size of a non-interval meter (e.g. 30 kW Vs average 3 kW). Therefore, to the extent the above issues are occurring, Synergy is being overcharged for IRCR on approximately a 10-to-1 basis for each non-interval meter that upgrades, and more where the meter churns to another retailer.

Synergy considers that, if the RCP decides to deal with the issue it raised in footnote 3 on page 14 as a Manifest Error, it should concurrently resolve this issue. If a manifest error Rule Change Proposal only fixes, essentially, half of the issue, as the RCP appears to propose in foot note 3 on page 14, Synergy will be worse off compared with its competitors and be paying significantly more than is fair share of IRCR. Synergy considers such an outcome would also be contrary to the WEM Objective to promote competition.

General Comments on Proposal:

Insufficient time to reflect changes in Power Purchase Agreements

The proposed changes will require Synergy (and potentially other Market Participants) to amend its Power Purchase Agreements (**PPA**) to ensure the proposed changes do not result in increases to Synergy's prudential exposure.

Synergy considers that the costs and timeframes associated with amending the PPAs should be included in the RCP's report and decisions. Specifically, Synergy is concerned that there will be insufficient time between the Final Rule Change Report being published (and triggering the change in law provisions in most Market Participant's PPAs). Therefore, Synergy considers that the proposed commencement date of 1 October 2018 should be extended to allow sufficient time for Synergy and other Market Participants to make any necessary contract changes. If the commencement date is not sufficiently extended to allow for such contract changes, Synergy notes that Market Participant's prudential exposure is likely to increase dramatically, which is at odds with the purported aim of the Rule Change Proposal to minimize increases to prudential exposure. In a worst case scenario, not ensuring sufficient time for PPAs to be changed, and the increases in prudential exposure caused by that, could result in a Market Participant becoming insolvent.

Insufficient Information provided by the Rule Change Panel

The Rule Change Panel has stated that Step 8 of Appendix 5 requires changes to remove "manifest errors", however, the Draft Report does not detail the nature of these manifest errors.

Synergy considers that, should the Rule Change Panel release details of these purported manifest errors, and a Market Participant subsequently provides comment on the Rule Change Panel's amendments, all Market Participants should be given a further chance to comment on the changes so as to maintain the consultation arrangements in the rule change process that exist in the Market Rules.

Drafting comments:

Synergy notes that the proposed changes refer to "*Capacity Credits that are allowed to be traded bilaterally under clause 4.14.9*" (see proposed clauses 2.31.13(f), 4.25.4CA, 9.4.5, 9.4.10 and 9.4.15.) Synergy considers that references to clause 4.14.9 in the proposed rules is likely to result in inconsistent outcomes. Consider the following examples:

- Clause 4.14.9 does not reference Capacity Credits, rather the clause refers to Certified Reserve Capacity. Synergy notes that Certified Reserve Capacity may be materially higher than the Capacity Credits ultimately assigned to a Market Participant. Synergy considers that this will ultimately result in decisions on whether to approve certain applications or allocation submissions to be based on a number that is irrelevant to the decision being made (for example see proposed clause 4.25.4CA and 9.4.5); and

- Even if clause 4.14.9 can be interpreted as referencing Capacity Credits rather than Certified Reserve Capacity, the relevant number in clause 4.14.9 is the number at a point in time. Therefore, Synergy considers that this number should not be used a measure of the current Capacity Credits assigned to a Market Participant (which is what the proposed changes appear to intend). Synergy considers that, as currently drafted, the proposed Market Rules could result in undesirable outcomes, for example, because Capacity Credits may change over a year for a number of reasons – most notably where a Facility fails a Reserve Capacity Test under section 4.25 of the Market Rules.

Minor Drafting Comments

- Clause 9.4.5: should the "or" at the end of 9.4.5(a)(ii) be an "and"?
- Clauses 9.4.9 and 9.4.10: are these clauses necessary given clause 9.4.5. the clauses seem administratively burdensome for little or no gain.
- Clause 9.4.18: AEMO's power to reduce Capacity Credit Allocations under this procedure is very broad. Synergy considers that the Market Rules should include further principles limiting and directing AEMO's power to unilaterally amend Capacity Credit Allocations.

---

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

Synergy is of a view that, subject to the issues raised in section 1 being addressed, the proposed amendments will enable to better facilitate the following market objectives:

- Promote the economically efficient, safe and reliable production and supply of electricity and electricity-related services in the SWIS.
- Encourage competition among generators and retailers in the SWIS, including by facilitating efficient entry of new competitors.
- 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.

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.

The proposed changes will require Synergy (and potentially other Market Participants) to amend their PPAs to allow for the reallocation of risk flowing on from the proposed changes.

---

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

Synergy considers that the proposed commencement date of 1 October 2018 should be extended to allow sufficient time for Synergy and other Market Participants to make any necessary changes to their PPAs.