

Wholesale Electricity Market Rule Change Proposal Submission

RC_2017_06: Reduction of the prudential exposure in the Reserve Capacity Mechanism

Submitted by:

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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.

Alinta Energy (**Alinta**) welcomes the opportunity to provide a submission to the Rule Change Panel (**RCP**) on the *Rule Change Proposal: Reduction of the prudential exposure in the Reserve Capacity Mechanism (RC_2017_06)* where the Australian Energy Market Operator (**AEMO**) seeks to reduce the need for any additional Credit Support by making the following changes to the Market Rules:

- a change to the responsible party reference month in the IRCR calculation from month n-3 to month n, to reduce the period of time an IRCR liability is held by three months; and
- amendments to the Capacity Credit Allocation process, to allow Capacity Credit Allocations to be made by Market Generators and accepted by Market Customers prior to the Market Customers incurring the IRCR liability (where these Capacity Credit Allocations cannot be reversed by AEMO without consideration of the prudential implications).

Alinta supports the rule change proposal, particularly the amendments to reduce the period of time an IRCR liability is held by three months. Alinta considers that this resolves an outstanding issue that the market has sought to deal with for a number of years.

Noting this support, Alinta would like to comment on the proposed transitional arrangements and the potential implications of the amendments to the Outstanding Amount calculations - which participants have yet to see.

Transitional Provisions

AEMO has indicated that due to the proposed amendments to move the target month from month n-3 to month n for Meter Registry data, transitional arrangements are required. AEMO considered three options for transition, and taking into account operational impacts, it has proposed transitional rules to account for four months of responsible party data in the IRCR calculations for the first Trading Month after the proposed Amending Rules come into effect.

Alinta notes that the transitional arrangement that AEMO has proposed has reasonable impacts on its business processes and both billing and settlements systems, with a consequential impact on customers. This approach will require:

- System changes for both the first and the second Trading Months after the proposed amending rules come into effect, these changes will need to be tested and outputs closely verified (which will require additional manual processing to confirm);
- Amendments to Alinta's business processes to take into account these changes for both the first and second Trading Months;
- Staff training (for billing staff, customer service representatives and account managers) to ensure that all customer facing staff understand the rule change, the proposed transition approach and the impacts on customers; and
- Detailed communications rollout to customers to explain the proposed transition approach and the impacts – Alinta considers there will need to be both a generic and specific customer communication plan developed and implemented.

Alinta considers that the transitional approach selected leads to:

- additional complexity in an area of the rules which is already difficult to explain to customers,
- increased system development, testing and verification costs, and
- increased costs for staff training and customer communications,

than would otherwise be incurred if the drop dead transition option were implemented (i.e. option three - do not propose any transitional measures).

Alinta's early estimates are that AEMO's proposed transition would add up to 25 percent on its implementation costs compared to selecting the drop dead implementation. From a systems perspective, the basis of this is that typically, systems are set up to deal with drop dead changes as part of normal business operations (for example - a change in IRCR from month to month). The proposed implementation approach would lead to increased manual handling, which in turn leads to increased costs and potential for manual errors.

Alinta strongly considers that the drop dead transition option should be implemented as it will have the least operational impact on retailers billing systems and processes and therefore the least potential impact on customers.

Noting this recommendation, if the Rule Change Panel did proceed with the transition provisions as proposed, Alinta recommends that the transition needs to be contained to a single Capacity Year so that a Retailer does not need to take into account a change to the Reserve Capacity Price during the transition month.

Outstanding Amount Calculation

AEMO has proposed that changes to the Market Procedure detailing the Outstanding Amount calculation are implemented one month after this Rule Change Proposal is implemented. AEMO

noted that this will allow Market Customers the opportunity to receive Capacity Credit Allocations prior to being impacted by changes to the Outstanding Amount calculation.

Alinta is of the opinion that the proposed amendments to the Outstanding Amount calculation could lead to a significant impact on all participant's prudential requirements and strongly recommends that the timelines associated with the rule change allow sufficient time for Market Participants to review the Procedure Change Proposal to amend the Outstanding Amount calculation methodology prior to the end of the second submission period. Alinta considers that it is important to allow participants to assess the solution in its entirety in order to assess the impacts for its business and assess whether the total solution is adequate.

Further, as part of the development of the amendments to the Outstanding Amounts methodology, Alinta requests that AEMO consider providing preliminary calculations to participants. This will allow for a significant and detailed review of the impacts of such changes to all participants.

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

Alinta agrees with AEMO's assessment that the broader rule change, which seeks to minimise the prudential risk arising from a defaulting Market Customer's IRCR liabilities, better facilitates the achievement of Wholesale Market Objectives (a), (b) and (d).

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.

See section 1 above.

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

Alinta will provide more detail on this during the second submission period, pending the Rule Change Panel's review of its issues outlined in section 1 above.