Wholesale Electricity Market
Rule Change Proposal Submission Form

<RC_2012_10 Limits to Early Entry Capacity Payments>

Submitted by

- the risk profile associated with commissioning Scheduled or Non-Scheduled Generators differs materially to that of Curtailable Loads, Dispatchable Loads and Interruptible Loads. This is principally because capacity provided by Curtailable Loads, Dispatchable Loads and Interruptible Loads are typically existing loads, and so would not be expected to require an extended period to ensure they are commissioned;
- even if newly accredited Curtailable Loads, Dispatchable Loads and Interruptible Loads were not existing loads, Verve Energy considers it unlikely that capacity provided by such loads would represent a risk to the security and reliability of the power system over the summer period;
- there are some "activities" that Curtailable Loads, Dispatchable Loads and Interruptible Loads may need to complete in order to ensure readiness (for example, installing and testing telecommunications equipment). However, Verve Energy does not consider these "activities" to be comparable to the activities required to commission a thermal generation plant, for example; and
- It is Verve Energy's opinion that Scheduled or Non-Scheduled Generators are the participants who face the risk of commissioning delays that may impact the security and reliability of the power system over the summer period, and therefore these are the participants to whom the original Amending Rules were intended to apply to.

Synergy's Rule Change Proposal

Verve Energy supported Synergy's Rule Change Proposal in that it was amending the rules to apply to the participants to whom the original Amending Rules were intended to apply to.

Verve Energy did not support the IMO's counter proposal to remove the early entry capacity payments in their entirety. Verve Energy noted that while in a period of oversupply the drivers for the original rule change proposal are somewhat diluted however there may come a time when such an incentive for early entry would be desirable again i.e. should there be a shortfall in the future.

As such, Verve Energy suggested that the IMO consider amending Synergy's proposal to only trigger the early entry capacity payments in times of tight supply. Further to this suggestion, Verve Energy noted 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. Verve Energy expressed a concern that regular amendments to this clause may undermine the stability and integrity of the Reserve Capacity Mechanism (RCM). Therefore Verve Energy considered that any further amendments to this rule should be future-proofed as much 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.

IMO's Draft Rule Change Report

In its Draft Rule Change Report the IMO:

- rejected Synergy's Rule Change Proposal on the basis that the proposed Amending Rules would be inconsistent with the Wholesale Market Objectives; and

- noted stakeholders' suggestions for alternative options which may provide for a better cost benefit trade off for early capacity payments. The IMO noted that it had added this issue in its Rules Issues Log for future consideration.

Verve Energy notes that the Rules Issues Log is not publicly available, and that the IMO has recently stopped reporting on the relative priority of the additions to the Rules Issue Log[2]. As such, Verve Energy requests clarification from the IMO as to the relative priority of this issue against the other issues on the Rules Issues Log and the Market Rules Evolution Plan.

<u>Practicality and cost of implementation</u>

In its Draft Rule Change Report, the IMO noted that EnerNoc had identified a negative financial impact of $1 million if the amendments were implemented as proposed. However, Verve Energy notes that the negative financial impact identified by Synergy in its Rule Change Proposal of $2.3 million for 2011 and in excess of $8 million for 2012 was not specifically discussed. While these costs have already been incurred, they represent a significant additional cost to the market.

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[2] Prior to the June 2013 MAC meeting the IMO reported on the additions (and removals) to the Rules Issues Log and indicated a development priority of each new issue (high, medium or low).