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Proposed amendments

The Reserve Capacity Mechanism requires credited capacity to be available from the first day of the Capacity Year (1 October). To encourage the timely arrival of new capacity, Facilities may enter the market and begin receiving capacity payments at any time during the four month period leading up to this date (1 June to 30 September).

Synergy proposed amendments to clause 4.1.26 of the Market Rules to limit early capacity payments between 1 June and 30 September to Scheduled Generators and Non-Scheduled Generators only. Under Synergy's proposal other capacity types, such as Demand Side

The Draft Rule Change Report was published on 4 June 2013 and the second submission period was held between 5 June 2013 and 30 July 2013. Submissions were received from Alinta Energy, Synergy and Verve Energy, all supporting the proposal.

Assessment against Wholesale Market Objectives

The IMO considers that overall the proposed amendments are inconsistent with the Wholesale Market Objectives. While the removal of early capacity payments may reduce costs and so benefit Wholesale Market Objectives (a) and (d), in times where the market is in danger of not meeting its Reserve Capacity Target any potential savings may be outweighed by the associated risks to system reliability and the potential need to seek supplementary capacity.

On the other hand, in times of excess capacity the potential benefits of removing early capacity payments would appear to apply to all forms of capacity. The IMO is not convinced that under either scenario there is justification for allowing early capacity payments for generators only, and so considers that the proposal discriminates against demand side capacity and therefore has a strong negative impact on Wholesale Market Objective (c) which outweighs any potential benefits to other Wholesale Market Objectives.

Practicality and cost of implementation

The IMO has not identified any additional costs associated with the implementation nefhe iule 13( )]TJET

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1. Rule Change Process and Timetable

On 14 June 2012 Synergy submitted a Rule Change Proposal regarding amendments to clause 4.1.26 of the Wholesale Electricity Market Rules (Market Rules).

This proposal is being processed using the Standard Rule Change Process, described in section 2.7 of the Market Rules. In accordance with clause 2.5.10 of the Market Rules, the IMO decided to extend the timeframes for the preparation of the Draft Rule Change Report, the second submission period and the preparation of the Final Rule Change Report. Further details of the extensions are available on the Market Web Site: http://imowa.com.au/RC_2012_10.

The key dates in processing this Rule Change Proposal, as amended in the extension notices, are:

2. Proposed Amendments

2.1. The Rule Change Proposal

The Reserve Capacity Mechanism requires credited capacity to be available from the first day of the Capacity Year (1 October). To ensure that new capacity arrives prior to this date the window of entry for new capacity was brought forward via the Rule Change Proposal: Changing the Window of Entry into the Reserve Capacity Mechanism (RC_2009_11[1]) from 1 August – 30 November to 1 June – 30 September. Synergy considered that, as a result of RC_2009_11, the market had recognised that conventional generation, as opposed to Demand Side Programmes (DSPs), was prone to being unreliable for several months after commissioning. The change in the timing for entering the market, which provided Market Participants with access to an earlier stream of Capacity Credit payment, was to reduce the risk that generation capability would be late entering the market and thus require the IMO to acquire supplementary capacity.

Synergy also considered that there is a technical difference between generation capacity and other forms of capacity such as DSPs and that this difference serves as a basis on which to differentiate access to early capacity payments. That is, access to the early capacity payments should only be available to conventional generators and not to forms of capacity which do not suffer extended capacity payments between 1 June and 30 September to Scheduled Generators and Non-Scheduled Generators only. Other capacity types, such as DSPs would only be entitled to capacity payments from 1 October when their Reserve Capacity Obligations begin to apply.

For full details of the Rule Change Proposal please refer to the Market Web Site: http://www.imowa.com.au/RC_2012_10.

2.2. The IMO's Initial Assessment of the Rule Change Proposal

The IMO decided to progress the Rule Change Proposal to allow interested parties an opportunity to provide submissions as part of the rule change process.

2.3. Request for views on complete removal of early capacity payments

In the Rule Change Notice, the IMO considered that after two years of providing access to early capacity payments for new entrants it was now appropriate to reconsider the ongoing need for maintaining this incentive structure. The IMO noted that RC_2009_11 was implemented during a time of capacity shortage in the market, when the benefit of encouraging the timely delivery of capacity was considered likely to exceed any potential costs to the market. The IMO suggested that change would not be discriminatory in nature (Wholesale Market Objective (c)). The Chair noted that it had sought advice on Alinta's proposed amendments and whether they would be discriminatory from Marchment Hill Consulting[2].

- Discussion ensued on whether there were features of DSM that make it different from generation. The Chair noted that from a technical perspective there might be a difference but that should not translate to treating them different commercially. Mr Will Bargmann noted that Synergy had legal advice on the discriminatory nature of the proposed rule amendment and was happy to share it with the MAC.
  advice dated 13 June 2012 was distributed to MAC members at the 11 July 2012 meeting and an electronic copy circulated by email on 26 July 2012.

mechanism to be in place with which the IMO had the responsibility to make a decision, however, the decision needed to be made as soon as possible by the IMO so as to provide the appropriate signals to the market to bring forward the entry of capacity into the market.

- Mr Patrick Peake noted that the original concept of the window of entry had been included in the Market Rules to ensure that Commissioning Tests of various facilities were spread

3.2. Submissions received during the first submission period

The first submission period for this Rule Change Proposal was held between 25 June 2012 and 3 August 2012. Submissions were received from APA Group, Community Electricity, EnerNOC, Griffin Energy, Perth Energy, Synergy and Verve Energy.

APA Group, Community Electricity, Perth Energy, Synergy and Verve Energy supported the Rule Change Proposal, agreeing with Synergy's view that DSPs did not have a summer peak period arrival risk due to their less complex commissioning requirements and therefore did not require a

6.1. Wholesale Market Objectives

The IMO considers that overall the proposed amendments are inconsistent with the Wholesale Market Objectives, with the potential benefits to Wholesale Market Objectives (a) and (d) outweighed by the negative impact on Wholesale Market Objective (c). The IMO is not convinced that the proposed cost and efficiency benefits could not be achieved without targeting a specific type of capacity.

The IMO's assessment is presented below.

(a) to promote the economically efficient, safe and reliable production and supply of electricity and electricity related services in the South West interconnected system.

In times of excess capacity the removal of early capacity payments for DSM facilities would reduce the overall cost of these payments and so improve the economic efficiency of the market.

	Submitter	Comment/Change Requested	Response
		delays in commissioning and/or unplanned outages being less likely to affect the security and reliability of the power system over the summer period when demand reaches system peaks.	
4.	Synergy	It is appropriate to differentiate access to early capacity payments because the DSP commissioning process deals with communication and load control technologies for existing loads whereas the commissioning process for new generation plant deals with the integration of a large range of technologies and processes that typically result in an extended fault resolution period post commissioning. Synergy maintains that these technical differences resolve to markedly different risk profiles, in regard to the extent that they can impact system reliability and security during the summer peak season and therefore the need to initiate an SRC event. In short, a four month reserve capacity window is considered not to be required for new load based capacity.	While the commissioning of a DSP may be simpler than

	Submitter	Comment/Change Requested	Response
		has unintentionally resulted in new entrant DSM receiving approximately $9 million of early entry capacity payments since the 2011/12 Capacity Year despite there being a current	

	Submitter	Comment/Change Requested	Response
		Rules for RC_2009_11 were intended to apply.	
11.	Synergy	It is efficient to differentiate access to early capacity payments because precluding new load based capacity's access to early capacity payments reduces excess capacity costs imposed on customers in the preceding year noting that the value of excess capacity to customers is negligible.	Please refer to the IMO's assessment against Wholesale Market Objective (a) in section 6.1 of this report. The IMO further notes that in conditions of excess capacity the benefits to the market of the early entry of a generator (unless it fills some specific niche in the market) could also be insignificant compared with the costs.
12.	Synergy	Synergy contends that the IMO has misinterpreted Synergy's legal advice with regard to indirect discrimination and its application to the proposal. The advice supports the proposition that treating capacity technologies the same, which in the context of the proposal is taken to mean access to early capacity payments, represents indirect discrimination favouring one group of capacity technologies, i.e. load based capacity over generation technology based capacity. Synergy notes the IMO, in its assessment, states that Synergy's legal advice does not, in the context of the listed different treatment of technologies, distinguish a value difference between the technologies in providing timely capacity. Synergy holds that this is an incorrect interpretation of the purpose of the advice; it did not seek to draw such a distinction as related to differing capacity technologies in regard to providing a reserve capacity service, rather it defined the nature of indirect discrimination and in treating sufficiently	