Wholesale Electricity Market
Rule Change Proposal Submission Form

RC_2012_10 Limits to Early Entry Capacity Payments

Submitted by

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Submission

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

Background

The Capacity Year runs from 1 October to 30 September. Market Participants must make their capacity available for the entire duration of this period or pay refunds for unavailability. Currently, new capacity that is about to enter service may enter as early as 1 June immediately prior to the start of the Capacity Year. New capacity that is fully commissioned before the start of the Capacity Year may start receiving capacity credit payments as early as 1 June.

The rules for early payment for newly commissioned capacity were amended to allow for the 1 June start of capacity payments in 2009 with the implementation of RC 2009 11 "Changing the Window of Entry into the Reserve Capacity Mechanism". Prior to the introduction of RC 2009 11 new capacity could enter the market between 1 August and 30 November. Payment for early entry of capacity credits was only available from 1 August.

RC 2009 11 was proposed by the Independent Market Operator (IMO) at a time when the system had a much tighter capacity supply compared to the situation today. The additional financial incentives that RC 2009 11 introduced for commissioning capacity as early as possible were promoted as:

- improving system security by providing more time for newly commissioned plant to iron out any early technical problems to ensure a high reliability and availability during operation in the first hot season after commissioning, and

- minimising long term costs of capacity provision by lowering the risk of having to run expensive tenders for supplementary capacity at short notice to cover for new capacity that failed to commission before the start of the hot season.

Early payment of capacity credits represents a cost to Market Customers. This cost was assessed as acceptable when assessing RC 2009 11 when balanced against the improved incentives for timely entry of new capacity and therefore positive impact on system security and reliability.

However, Synergy has identified that the financial incentive to encourage early entry is only required for conventional generation capacity. For other "technologies" that provide capacity credits, such as Demand Side Management (DSM) programmes, the capacity often already exists and no commissioning is necessary. The effect on system security of providing financial incentives to non-generation based capacity to be available early may therefore be limited as these providers do not typically have potential technical commissioning issues to sort out to guarantee the availability of their capacity credits

Change Proposal

Synergy submitted Rule Change Proposal RC_2012_10 "Limits to Early Entry Capacity Payments" on 14 June 2012.

Synergy has proposed to amend the Market Rules so that early payment for Capacity Credits in future only be available to commissioning (new Facilities) Scheduled and Non-Scheduled Generators. Under the proposal, Scheduled and Non-Scheduled Generators will continue to be able to receive capacity payments as early as 1 June immediately prior to the start of the first Capacity Year that the new capacity has been accredited for.

However, all other new capacity, including that provided by DSM programs, would only be eligible for capacity payments from the start of the Capacity Year on 1 October.

Since the introduction of RC 2009 11 the South West Interconnected System (SWIS) has changed from having a very tight Capacity Credit supply to having a significant oversupply of Capacity Credits. This has been driven by Synergy's underwriting of the entry of large baseload coal and combined cycle gas plant, peaking plant and wind farm within a short space of time and significant increase in DSM based capacity that is projected to be close to 10% of total Capacity Credits in 2013/14.

The entry of Synergy-underwritten capacity was designed to displace some of Verve's oldest capacity under the original Vesting Contract that encouraged such displacement to improve system efficiency and lower costs. However, Verve has not decommissioned its displaced or scheduled-to-close capacity as planned following the Varanus Island incident that has caused some legitimate concern over potential capacity shortfall should another crisis occur.

The oversupply has been effected against the backdrop of a decline in capacity demand due to lower than IMO forecast electricity consumption in previous years.

Management to work out. DSM, at the absolute best, could only be considered an ancillary service to System Management.

The most critical fact that the IMO seems to have completely missed is that the ultimate penalty imposed on a generation capacity investor is the full capital cost of that capacity. The ultimate penalty imposed on a DSM load aggregator is only the Capacity Credit refunds – that is, if the aggregator sticks around to pay them. A generation capacity owner who walks away from their obligations to the WEM will lose the power station. A DSM aggregator can walk away from their obligations with no skin left behind other than any deposit with IMO.

The current payment to DSM loads as generation capacity is so irrational it is akin to an unwitting sham foisted on all other loads in the SWIS that could be shed at any time under system stress conditions that do not get paid. It is a virulent cost to all SWIS consumers that should not be there in the first place.

Early Payment For New Capacity

Our view is that 1) there should be no payment to DSM capacity as generation capacity under any condition, and 2) there should be no early payment to new capacity, conventional or otherwise, under excess capacity conditions.

An oversupply of Capacity Credits does not impact financially on Market Participants that source their Capacity Credits via the market as the Capacity Credit price is automatically adjusted to take account of any oversupply (clause 4.29.1(c)). However, any payment for new Capacity Credits that enter prior to the start of the Capacity Year represents an additional cost that is borne by Market Customers. This additional cost can only be justified by the potential benefit to the market of having new capacity entering the system early and finished. Providing a financial incentive for early commissioning allows more time to sort these problems ahead of the start of the critical Hot Season and therefore will be of benefit to system security under normal conditions.

While Perth Energy supports the continued provision of an opportunity for generators to start earning Capacity Credit payments from 1 June to encourage early commissioning under balanced supply-demand conditions, we do not support early payments under excess capacity conditions.

Interpretation of Rules

Perth Energy understands there is some concern that the proposed amendments may be seen to be discriminating against certain technologies, such as DSM, and therefore may not be compatible with facilitating Market Objective (c)[1]. Perth Energy notes that Synergy has obtained legal advice to support its position that the proposed amendments would be compatible with Market Objective (c).

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