Wholesale Electricity Market
Rule Change Submission Form

RC_2013_10 Harmonisation of Supply-Side and Demand-Side Capacity Resources

Submitted by

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Submission

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

Background

There have been concerns raised within industry and government for a number of years around the fact that despite providing the same role in meeting peak demand requirements and being rewarded similarly, capacity resources are not always treated consistently in the Wholesale Electricity Market (WEM).

Consistent with these views the recent review of the Reserve Capacity Mechanism (RCM) by the Lantau Group identified a number of issues with the existing performance requirements for Reserve Capacity including:

- *The role of Demand Side Management (DSM) in the RCM* – The Lantau Group suggested harmonising the treatment of demand-side and supply-side (generation resources) by increasing the minimum availability requirement for Demand Side Programmes (DSP).
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To consider those issues raised, and recommendations made, by the Lantau Group, the IMO constituted the RCM Working Group (RCMWG) in early 2012.

RCMWG's deliberations

To assist in the RCMWG's deliberations on those recommendations relating to the harmonisation of capacity resources (Work Stream 2), the IMO engaged Dr Richard Tooth from the Sapere Research Group.

Dr Tooth provided the following high level observations which consequently formed the basis of the proposed changes put forward to the RCMWG's consideration:

- Fuel Requirements (Issue 1)
    - There are sufficient commercial incentives in the energy market for base-load and mid-merit generators to meet demand outside of Peak Trading Intervals. As a result, the role of performance requirements is around ensuring generators can meet the incremental energy requirements during the daily peak.
    - Generally commercial incentives along with those incentives provided by the energy market and capacity refunds will ensure that there is reliable supply during peak periods. However these may be insufficient for some high-cost generators who infrequently participate in the energy market (i.e. low profit contribution) under the current market design.
    - Changes to implement dynamic capacity refunds would create greater commercial incentives for high-cost generators to ensure they have sourced sufficient fuel, thereby potentially enabling the current prescriptive fuel requirements to be removed from the rules.
- DSM – Harmonisation (Issue 2)
    - All capacity resources and availability classes are treated equally under the current design. That is, DSM capacity is valued the same as generation capacity[1].
    - Despite the requirement that all capacity is treated the same, there is a significant divergence between the performance requirements for DSM and Scheduled Generators currently.

Reflective of these underlying considerations in the existing market design the key proposals that were determined to proceed through to the Rule Change Process were to:

- Relax the requirements for facilities to have firm fuel supply contracts in place, provided that the capacity refund mechanism is assessed to provide sufficient commercial incentives for Facilities to be available when required;

[1] Dr Tooth noted that there are a number of advantages and disadvantages in DSM in terms of its contribution to reliability and it would be premature comment on its relative value (refer to page 24 of the combined 17 April 2012 meeting papers).

Specific details of Alinta's views are outlined in its 3 October 2013 submission available on the IMO's public website.

Draft Rule Change Report

In its Draft Rule Change Report the IMO made minor amendments to the proposed Amending Rules to:

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IMO's previous position of providing clear availability requirements so as to ensure facilities

Alinta notes that this will ensure that unnecessary additional costs are not incurred by the market and will act to set a "maximum" fuel requirement for certification – which is particularly important for potential new entrants. Alinta understands that the IMO will be providing this confirmation in the Final Rule Change Report and/or within a comment box in the Market Procedure.

- the principle underpinning the IMO's fuel assessments for the purposes of certification is outlined in an appropriate regulatory instrument so as to provide certainty to the market of the context for the IMO's decision making (given that the rules will now remain silent on this matter).

  Alinta acknowledges the difficulties faced by the IMO in clarifying that certification decisions relate to a facilities anticipated performance during peak periods – given its difficult to define "peak periods". However without clarifying that the test relates to peak times (or alternatively periods of low system reserve) there is a risk that in the future a much broader test may be applied, particularly for Baseload generators for which the "expected operational characteristics" would potentially mean they need sufficient evidence of fuel to operate for a significant proportion of the year.

  Alinta recommends that a principle along the lines of the following is incorporated: *"In*