
Wholesale Electricity Market Rule Change Proposal Submission Form

RC_2010_01 Annual Review of the Margin Values

Submitted by

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Alinta supports as a matter of principle the notion that prices for services provided to the market should be cost reflective. However, where pricing mechanisms are allowed to operate to set prices at cost reflective levels, the market for such services must be contestable to ensure that the price reflects the economically efficient cost of these services.

RC_2010_01 would result in the values of the Margin_Peak and Margin_Off-Peak parameters being reviewed annually instead of three-yearly, but would not address any of the barriers to the broader provision of ancillary services that were identified by System Management's expressions of interest (EOI) process for the provision of load following ancillary services. These impediments were as follows.

1. Lack of certainty surrounding the pricing mechanism given linkage to MCAP, which is unknown at the time non-Verve generators would be offering to provide the ancillary service.
2. Requirement for non-Verve generators to offer to provide ancillary services at a discount to this unknown price.
3. Upfront costs that would be incurred by some non-Verve generators for installing generation control devices (and uncertainty about the ability to recover these costs).
4. Physical and contractual ability of plant to at all times provide the minimum 'blocks' of ancillary service specified in EOI.

Contrary to the IMO's claims in draft Rule Change Report, there is no evidence to support a conclusion that RC_2010_01 will better achieve Market Objective (a) or (b). In fact, as outlined below, the available evidence suggests that RC_2010_01 is not consistent with Market Objectives (a), (b) or (d).

Market objective (a)

As noted above, the effect of RC_2010_01 is to change only the frequency with which the values of the Margin_Peak and Margin_Off-Peak parameters are determined by the Authority.

The rule change proposal does not change the manner in which ancillary services are priced, nor how ancillary services might be procured from providers other than Verve. As a result, it is reasonable to conclude that the Market Rules will continue to inhibit the broader provision of ancillary services for the reasons identified above.

If Verve remains as the exclusive provider of ancillary services, then changing the frequency with which the price paid to Verve for the provision of these services is adjusted will not of itself affect the economic efficiency with which these services are provided, nor will it affect the manner in which electricity and electricity related services are provided in the SWIS.

That is, RC_2010_01 would simply result in more frequent adjustments to the quantum of the financial transfers between Verve and non-Verve market participants, and would not affect the economic efficiency, safety or reliability of the production or supply of electricity and electricity related services in the SWIS.

Market Objective (b)

The IMO suggests that RC_2010_01 will ensure providers of ancillary services will be appropriately compensated for energy sales forgone and losses in generator efficiency resulting from backing off generation to provide Spinning Reserve. However, this conclusion would only hold if a generator was providing ancillary services consistently throughout the year, and if the actual MCAP was consistent with the forecast underpinning the Authority's determination of the values of the Margin_Peak and Margin_Off-Peak parameters.

In any event, given the rule change proposal does not change the manner in which ancillary

