
Wholesale Electricity Market
Rule Change Proposal Submission Form

RC_2010_14 Certification of Reserve Capacity

Submitted by

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Submission

As this aspect of PRC_2010_14 was not explicitly drawn to the MAC's attention, Alinta considers it cannot be suggested this aspect of the amending rules had "the general support of the MAC".

Despite the IMO's proposed further amendment to clause 4.11.1(a), Alinta is also concerned that the amended clause remains onerous and would result in Market Participants incurring unnecessary additional costs, which the IMO has indicated it is seeking to avoid.

Proposed new clause 4.11.10

The Market Rules currently provide for the quantum of Capacity Credits associated with a Facility to be reduced in certain circumstances, being:

following a Reserve Capacity test (clause 4.25.4); or

as a result of an application from a Market Participant to reduce its Capacity Credits (clause 4.25.4A), where such an application can only be made if the requirement to maintain Reserve Capacity Security for that Facility has ceased (clause 4.25.4B);

The proposed new clause 4.11.10 would require the IMO to review whether any information provided by a Market Participant in respect of a Facility that is yet to provide capacity to the market has changed since that Facility was granted Certified Reserve Capacity. It would also allow the IMO to reassess the quantum of Certified Reserve Capacity assigned to that Facility.

4.11.10. Upon the receipt of advice provided in accordance with clause 4.10.4 for a Facility that has already been assigned Capacity Credits for the relevant Capacity Year, the IMO must review the information provided and decide whether it is necessary for the IMO to reassess the assignment of Certified Reserve Capacity to the Facility. If this information would have resulted in the IMO assigning a lower, non-zero level of Certified Reserve Capacity the IMO must reduce the Capacity Credits assigned to that Facility accordingly and must advise the Market Participant within 90 days of receiving the submission.

The IMO comments that while the Reserve Capacity Mechanism is designed to be a firm mechanism, there is currently the potential for Market Participants to not disclose important information and change key aspects of a Facility after being certified with no recourse. For example, it claims that a proponent could replace a diesel generator with a wind farm after its initial certification.

However, the proposed new clause 4.10.4 would require Market Participants to advise the IMO if any of the details provided in an application for Certified Reserve Capacity for a Facility in accordance with section 4.10 of the Market Rules had changed. This clause should ensure that the IMO is aware of any changes to key aspects of a Facility after certification, including replacement of a diesel generator with a wind farm as suggested by the IMO.

The IMO also suggests there is a trade off between:

retaining the financial incentives for project developers to ensure that capacity is made available to the market ahead of the summer period; and

Alinta's further comments

Transfer of risk

As noted in its previous submission, the effect of the proposed new clause 4.11.10 would be to transfer commercial, technical, construction and commissioning risk from developers proposing new Facilities to Market Customers generally.

The IMO notes that if a project developer fails to deliver the quantum of Capacity Credits notified to the IMO and accepted by it under clause 4.20, it may forfeit its Reserve Capacity Security. While this is true, the proposed new clause 4.11.10 would enable Market Participants to come to a commercial decision on whether it is more attractive to deliver the amount of Capacity Credits notified to the IMO and accepted by it under clause 4.20, or whether to deliver some other Cr AT1 T.2(5.7)[(propos[(A it)o.1(u) and[(amo to th)5.pAs ntmercf it)o.1(u)



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2. Please provide an assessment whether the change will better facilitate the achievement of the Market Objectives.

Market Rule 2.4.2 states that the IMO must not make Amending Rules unless it is satisfied that the Market Rules, as proposed to be amended or replaced, are consistent with the Wholesale Market Objectives. The Wholesale Market Objectives are as follows.

- (a) To promote the economically efficient, safe and reliable production and supply of electricity and electricity related services in the South West interconnected system.
- (b) To encourage competition among generators and retailers in the South West interconnected system, including by facilitating efficient entry of new competitors.

However, the effect of the proposed new clause 4.10.4 in RC_2010_14 would appear to be to enable a developer of any type of Facility to provide a report (at any time prior to the date its Reserve Capacity Obligation Quantity applied?) that it intended to only construct only part of the proposed facility, for example 20 turbines instead of the full 50.

It appears that the project developer's failure to construct the Facility in accordance with the basis on which it applied for, and was granted, Certified Reserve Capacity could have arisen due to:

- changes that make it commercially unattractive to the project developer to construct the Facility as originally proposed; or
- technical challenges, that means the Facility can no longer be delivered as originally proposed by the project developer.

In this situation, it would appear that following the changes to the Market Rules contemplated by RC_2010_14, the Facility would no longer be exposed to refunds, as there would not longer be any MW shortfall relative to the revised quantity of Capacity Credits associated with the Facility.

Irrespective of the reason that the Facility is not constructed in accordance with the basis on which it applied for, and was granted, Certified Reserve Capacity, Alinta considers that these risks should be borne by the project developer, as it is best placed to manage and mitigate such risks.

The likely effect of the proposed new clause 4.11.10 is to undermine the strong financial incentives that currently exist in the Market Rules for project developers to ensure that capacity is made available to the market ahead of the summer period when demand reaches system peaks. If capacity expected to be available is not delivered, there is a risk that the security and reliability of the power system over the summer period may be adversely affected.

Further, in situations where the amount of capacity certified by the IMO exceeds the Reserve Capacity Requirement, the Reserve Capacity Price is adjusted so that the overall capacity cost to Market Customers does not exceed that which would be paid if the amount of capacity only equalled the Reserve Capacity Requirement (and the price was the Maximum Reserve Capacity Price).

Consequently, if implemented as proposed, and in situations where the amount of Certified Reserve Capacity assigned by the IMO, and subsequently provided by Market participants under clause 4.20.1(a) (or the proposed new clause 4.20.5A), exceeds the Reserve Capacity Requirement, RC_2010_14 would also need to readjust the capacity price for the affected capacity year(s).