
Wholesale Electricity Market Rule Change Proposal Submission Form

Draft Rule Change Report: RC_2010_25 & RC_2010_37 Calculation of the Capacity Value of Intermittent Generation – Methodology 1 (IMO) and Methodology 2 (Griffin Energy)

Submitted by

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Submission

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

Synergy notes that the IMO Board has decided to reject RC_2010_37 whilst substantially modifying RC_2010_25 according to the Sapere's recommendations embodied in their report entitled "Capacity value of intermittent generation: Public report". Synergy will therefore not make further substantive comment on the two methodologies originally proposed for RC_2010_25 and RC_2010_37, but instead will make comments on the Sapere recommendations and raise concern of process.

Comments regarding Sapere's recommended transitional arrangements

Synergy is concerned that a change to the capacity crediting of existing Intermittent Generation Facilities (IGF) would send to investors (and not just intermittent generation investors) a signal that the Wholesale Electricity Market, at its core, will implement changes that expose Market Participants to significant regulatory risk. This is a strongly held view and one that, if not handled well, will result in significant investor uncertainty and cost implications for future capacity investments. Our concern is not simply related to viability considerations for existing facilities but that a change, such as the one being proposed in this draft rule change report, will cast a wider shadow over the market in the minds of investors that their assumptions pre-investment could be overturned by a rule change at a later date – particularly, where rule changes are made without full and proper scrutiny by the industry forum set up for that purpose. This broader point is Synergy's primary concern and the proposed transitional arrangements suggested in the draft report do little to remove this concern.

It is noted in the IMO's draft rule change report that the IMO Board has already decided that the correct balance between efficiency and regulatory risk is to be a transitional arrangement over three

(AEMO) quarantined (grandfathered) existing facilities¹ and only applied revised arrangements to new facilities, arriving at a different balance than that proposed by the IMO Board. Synergy therefore suggests that the IMO Board reconsider its determination to eschew grandfathering and opt for a transitional arrangement, for at least diligence purposes, by seeking input from AEMO as to why, after taking into account the interests of stakeholders, they arrived at their decision to grandfather the existing facilities from the requirements of the amended rules.

minimum in summer will always result in a high demand the following day. The reverse is the case in winter.

These points are made to challenge the notion that maximum temperature alone drives demand and that establishing a simple linkage between peak temperature and demand is inaccurate and not a sufficient basis of itself for creating a second correction factor for IGF production.

Synergy understands that to account for the presumed lack of 1-in-10 summer load and IGF data Sapere has created the “U” value. Strangely, the Sapere paper sets the U value based upon the RC_2010_25 method opening it up to the criticism that its determination is arbitrary. The determination of the U value is critical given it is a much larger correction factor than the “K” value alone.

The rationale for the inclusion of the U value relies upon a degree of correlation between IGF output and increased or high temperatures. Sapere’s report only provides two charts to justify this point, one being Figure 3 which visually does not appear to suggest any particular relationship between IGF output and temperature and Figure 4 which is inconclusive. Importantly, the text of the report under Figure 4 states:

“These results themselves are based upon a small number of TIs and should not be considered as strong evidence of IGF output during extreme demand/temperature scenarios.”

It is therefore difficult, if the evidence is not considered “strong”, to understand why the report concludes the need for a U value adjustment or how it can propose a particular value for U. In Synergy’s view, it is also premature, without at least an analysis of the impact of Collgar’s data, to reach such a conclusion.

Synergy, at this time, is not convinced by Sapere’s argument in respect of the magnitudes of the adjustment factors and suggests to the IMO Board that if it were to consider implementing the amended z-method that it should: either seek a more rigorous assessment of the relationship between IGF output and temperature, possibly by engaging a suitably qualified consultant with local experience in this field, or by removing U value at this juncture.

Load for Scheduled Generation is new to the market

Synergy notes that a number of Market Participants and potential investors have expressed concern about the importation of the Load for Scheduled Generation (LSG) concept into the Reserve Capacity Mechanism. This concern arises because the market, even the relevant working group, did not adequately discuss LSG and so had not formed a robust opinion. Even Griffin, in proposing RC_2010_37, as confirmed at the recent workshop, were not recommending or agreeing to LSG.

Synergy understands that the essential objective of the LSG concept is to favour, with higher capacity valuations, IGF that align with maximum LSG periods. Synergy is concerned that such maximum LSG periods will be difficult or impossible to predict in the medium to long term (in contrast with maximum system load, which is much more predictable), and so the resulting signals to IGF developers will be confused. The concept may therefore act to discourage the development of IGF that would make their maximum contribution to capacity at the time of maximum system load. This is counter-intuitive and would represent a significant change to the RCM as, in regards to IGF, it would no longer reward alignment with peak system load conditions, which is a fundamental tenet of the RCM. Further, the

affected by new IGF investment or if grandfathering is to apply then how it would work in practice. Synergy therefore recommends that the IMO consider conducting a workshop to explain the benefits and risks of the market adopting the LSG concept as an input to IGF capacity valuations.

Time not right for RC_2010_25/37; RCM review may impact valuations

Synergy also suggests that it is not timely to consider changes to capacity crediting IGF given the

generation investment, not just for IGF but more generally for all future capacity forms resulting in an increase in long term costs.