Courtney Roberts

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To: Market Admin
Subject: Rule Change Proposal Submission

Wholesale Electricity Market
Rule Change Proposal Submission

RC_2010_25 and RC_2010_37
Calculation of the Capacity Value of Intermittent Generation – Methodology

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Impact on Investment in the SWIS

MHE submits that the rule change proposal RC_2010_25 will have a significant impact on investment in the SWIS, impacting both projects currently under development (like FRWF) and also future investment in renewable generation.

The Flat Rocks Wind Farm is a case in point. The financial viability of the FRWF project is at risk if the rule change proposal RC_2010_25 was to proceed. MHE believes that the introduction of such a change is at odds with Australian and Western Australian Government policy and is inconsistent with the WEM “market

MHE believe the Western Australian Government has recently reinforced this, with “Cleaner Energy” being one of the four major strategic goals of the Strategic Energy Initiative: Energy 2031. Specifically, the objectives include; “increased penetration of embedded or local distributed generation and commercial scale renewable energy (e.g. wind and solar farms) and technologies which facilitate penetration”.

It would seem that a rule change proposal that significantly reduces the valuation of capacity credits for intermittent generators is inconsistent with these policy initiatives.

Regulatory Risk

Since the initiation of the FRWF development in 2008, MHE has made a significant investment under the current market rules. Developers of projects in the WEM, should be confident that the regulatory regime in Western Australia is stable and provides encouragement for current and future investors. The proposed rule change brings into question the stability of the regulatory regime in the WEM.

It will not only impact the FRWF project, but may force future investors to reconsider the stability of the market and regulatory regime in place in the WEM. Increasing perceived regulatory risk and reducing the certainty of investing in the WEM is not a desired outcome of the rule change being proposed.

Market Objectives

The WEM objectives are core to the governance of this market. MHE is of the view that the rule change proposal is fundamentally inconsistent these objectives.

> “Minimise the long-term cost of electricity supplied to customers from the South West interconnected system”

This rule change will impact the prospective investment market for renewable energy generation projects. This is not only from a direct impact on project returns, but from an increase in the perceived regulatory risk as highlighted above. The impact on intermittent generation projects will see a lessening of competition for projects and will therefore result in higher costs in the longer term for consumers. Without competition in the investment market all projects will be delivered at a higher cost.

> “To encourage competition among generators and retailers in the South West interconnected system, including by facilitating efficient entry of new competitors”

The proposed rule change can only act as a discouragement to new investment and ultimately competition in both intermittent generation and generators in general.

Rules that discourage new intermittent generation investment (either in favor of investing in other technologies or in other jurisdictions such as the NEM) will be counter to this objective. Strong competition and promotion of investment in the WEM are important, given that there will always be limited scope for contracting for output and financing new projects.

In summary, MHE believes that the proposed rule change seems incongruent with policies to encourage renewable energy projects, and fundamentally inconsistent with the WEM objectives. MHE suggests the IMO reconsider its support for this rule change.

Alternative Methodology and RC_2010_37

MHE is not supportive of a methodology change that will significantly reduce the capacity valuation for intermittent generators.

Although not a member of the REGWG, MHE has been monitoring with interest the developments and proceedings from this and other working groups. MHE noted that McLennan, Magasanik Associates (MMA) were appointed to undertake analysis for the REGWG work package 2 and that through that analysis, recommended a methodology (2A). From information provided to MHE by other stakeholders, it would appear that the majority of stakeholders in the REGWG, were comfortable with the MMA concept.

We are therefore at a loss to understand the IMO recommendation to proceed with a proposal that was not supported by either a significant number of the stakeholders, or by the experts engaged to advise on this matter.

If the REGWG was generally supportive and comfortable with the MMA concept, it is simple and more consistent with the current methodology and its impact is not as significant on the investment already made on renewable projects (based on the current rules!), then the alternative as proposed by Griffin, in RC_2010_37, should be the preferred option.

Regards
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