



INDEPENDENT
MARKET
OPERATOR

Draft Rule Change Report Early Entry Capacity Payments

RC_2013_21
Standard Rule Change Process

Date: 25 March 2014



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Executive Summary

The Reserve Capacity Mechanism requires Certified Reserve Capacity to be available from the beginning of the Capacity Year on 1 October. Under clause 4.1.26(c) of the Wholesale Electricity Market Rules (Market Rules), to incentivise the prompt arrival of new capacity, Facilities may enter the market and begin receiving early entry capacity payments at any time throughout the four months leading up to start of the Capacity Year (specifically 1 June to 30 September). The early payment was preferred against the possibility of the risk of a new generator arriving late, and missing part or all of the generator's first summer, meaning it could be at risk of missing the critical summer peak, where system reliability is essential to minimise the risk of blackouts when the load is at its peak.

The IMO considers that, in years of excess capacity, the market receives little benefit from the incentive for early entry that is currently available. In these circumstances, the early entry capacity payments represent an unnecessary cost to Market Customers. As such, the IMO has developed this Rule Change Proposal to remove early entry capacity payments for new capacity in times of excess capacity.

Proposed Amendments

The IMO proposes to introduce a new clause 4.1.16A and amend clauses 4.1.16, 4.1.21A, 4.1.26, 4.20.5A and 4.28C.13 of the Market Rules to remove early entry capacity payments for new capacity where the Reserve Capacity Requirement has already been met for a Capacity Year.

The

Practicality and Cost of Implementation

The IMO is expected to incur minor costs to amend certification processes and systems. However, these costs are not expected to be significant and can be accommodated within the IMO's existing operational budget.

No issues relating to the practicality or cost of implementation have been raised in consultation on the Rule Change Proposal to date.

The IMO's Proposed Decision

The IMO's proposed decision is to accept the Rule Change Proposal as modified following the first submission period.

Next Steps

The IMO invites interested stakeholders to make submissions on this Draft Rule Change Report by 5:00 PM, Thursday 24 April 2014.

1. Rule Change Process and Timetable

On 10 January 2014, the IMO submitted a Rule Change Proposal proposing to introduce a new clause 4.1.16A and amend clauses 4.1.16, 4.1.21A, 4.1.26, 4.20.5A and 4.28C.13 18spu

The IMO considers that, in years of excess capacity the market receives little benefit from the incentive for early entry. In such circumstances, early entry capacity payments represent an unnecessary cost to Market Customers. Limiting access to early entry capacity payments will likely save Market Customers \$1.55 million on average per annum.

In addition, the IMO took the opportunity to correct an oversight from the Rule Change Proposal:
Early Certified Reserve Capacity

- x In June 2012², Griffin Power expressed the view that there is sufficient incentive to ensure capacity is available by 1 October in order to avoid Capacity Cost Refunds; and
- x In October 2013³, the MAC discussed the continuing priorities of the Market Rules Evolution Plan, where the reform of early entry capacity payments was agreed as a priority for the IMO to remove the unnecessary, inefficient cost to the market.

A pre Rule Change Proposal was presented to the MAC at its 11 December 2013 meeting. At the meeting, the MAC members agreed that, subject to a change in the timing of the notification of the availability of payments, the proposal should be submitted into the formal rule change process. The IMO formally submitted the proposal into the Standard Rule Change Process and published the Rule Change Notice on 10 January 2014.

Further details are available in the MAC meeting minutes available on the Market Web Site: <http://www.imowa.com.au/MAC>

4.2. Submissions Received During the First Submission Period

The first submission period for this Rule Change Proposal was held between 13 January 2014 and 24 February 2014. Submissions were received from Alinta Energy, Community Electricity, Perth Energy and Synergy.

All submitters supported the Rule Change Proposal noting that it would promote economic efficiency and reduce unnecessary costs in the market. Perth Energy also made a suggestion to correct an incorrect reference in the drafting of clause 4.1.16 of the Market Rules which the IMO has adopted.

Perth Energy and Synergy also raised some general issues which the IMO has addressed in section 4.3 of this Draft Rule Change Report.

The submitters' assessment against Wholesale Market Objectives is provided in the table below:

Submitter	Wholesale Market Objective assessment
Alinta Energy	Not specifically provided, but considers the proposal will remove unnecessary costs (Wholesale Market Objective (d)).
Community Electricity	Better achieves Wholesale Market Objectives (a) and (d) and consistent with the remaining.
Perth Energy	Better achieves Wholesale Market Objectives (a) and (d)
Synergy	Not specifically provided, but considers the proposed changes appropriately reduces market payments where no benefits accrue (Wholesale Market Objective (d)).

A copy of all submissions in full received during the first submission period is available on the Market Web Site:



4.3.

	Submitter	Comment/ Change Requested	IMO's Response
1.	Synergy	Synergy notes that clause 4.1.26 of the Market Rules has been amended a number of times since market start and currently includes different rules for a number of Reserve Capacity Cycles. Synergy is concerned that regular amendments to this clause may undermine the stability and integrity of the Reserve Capacity Mechanism. Synergy is supportive of the rule change being as future-proofed as possible i.e. to enable the incentive mechanism when supply is tight, but not cost the market when the early entry is not required.	The IMO agrees with Synergy that stability in the Market Rules is important. However, the IMO considers it appropriate to progress the proposed amendments to remove unnecessary costs to the market. The IMO notes that approach to drafting amendments to clause 4.1.26 has captured the rules that apply to each Reserve Capacity Cycle.
2.	Perth Energy	We remain of the view that demand side providers are not capable of delivering the same CRC product that conventional generators deliver. Evidence is that demand side products are not dispatched into the energy balancing market as generators are. They also do not have the same significant financial incentives to stay around and ensure that they are able to deliver capacity to the system as conventional generators do. This is because their investment in their Facility has an alternative value (the primary purpose of the Facility) and their investment would not be stranded if capacity payments from the WEM were no longer available. Conventional generators do not have any alternatives to sourcing revenue from the provision of energy and capacity and hence have a much stronger incentive to perform well in the WEM. We do not believe that demand side should be provided with CRC.	The IMO observes that the Reserve Capacity Mechanism Working Group agreed at its outset to uphold the principle that all capacity should be treated the same irrespective of its source. Additionally, as noted in the Final Rule Change Report for Rule Change Proposal: Limits to Early Entry Capacity Payments (RC_2012_10), the IMO notes that discrimination between different technologies is contrary to the Wholesale Market Objective (c).
	Alinta Energy	Alinta notes that its views around the necessity of early entry payments for DSM have not changed from those presented in its second round submission for RC_2012_10.	

Submitter



The IMO's assessment is presented below:

(a)

x are consistent with the remaining Wholesale Market Objectives; and

x have

3. from the Trading Day commencing on 1 October of Year 3, for new generating systems undertaking Commissioning Tests after 1

1. for Facilities commissioned between 1 June of Year 3 and 1 October of Year 3 – the date on which the Facility completes all Commissioning Tests and is capable of meeting Reserve Capacity Obligations in full, as specified in accordance with clause 4.10.1(c)(iii)(7), or as revised in accordance with clause 4.27.11A or clause 4.27.11B; or
2. for new generating systems undertaking Commissioning Tests after 1 October of Year 3 – 1 October of Year 3; and

...

Appendix 1. Further Amendments to the Proposed Amending Rules

The IMO has made some amendments to the Amending Rules following the first submission period. These changes are as follows (~~deleted text~~, added text):