
Wholesale Electricity Market - Rule Change Proposal Form

Change Proposal No: RC_2007_11

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Submitted by

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| Name: | Kristian Myhre |
| Phone: | 6213 7304 |
| Fax: | 6213 7026 |
| Email: | kristian.myhre@alinta.net.au |
| Organisation: | Alinta Sales Pty Ltd |
| Address: | 12-14 The Esplanade PERTH WA 6000 |
| Date submitted: | <i>26 June 2007</i> |
| Urgency: | <i>Fast Track</i> |
| Change Proposal title: | IRCR for new meters – customer peak load diversity |
| Market Rule(s) affected: | Appendix 5 |

Introduction

Market Rule 2.5.1 of the Wholesale Electricity Market Rules provides that any person (including the IMO) may make a Rule Change Proposal by completing a Rule Change Proposal Form that must be submitted to the Independent Market Operator.

This Change Proposal can be posted, faxed or emailed to:

Independent Market Operator

Attn: Dora Guzeleva, Manager Market Administration

PO Box 7096

Cloisters Square, Perth, WA 6850

Fax: (08) 9254 4399

Email: marketadmin@imowa.com.au

The Independent Market Operator will assess the proposal and, within 5 Business Days of receiving this Rule Change Proposal form, will notify you whether the Rule Change Proposal will be further progressed.

In order for the proposal to be progressed, all fields below must be completed and the change proposal must explain how it will enable the Market Rules to better contribute to the achievement of the wholesale electricity market objectives. The objectives of the market are:

- (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;
- (c) to avoid discrimination in that market against particular energy options and technologies, including sustainable energy options and technologies such as those that make use of renewable resources or that reduce overall greenhouse gas emissions;
- (d) to minimise the long-term cost of electricity supplied to customers from the South West interconnected system; and
- (e) to encourage the taking of measures to manage the amount of electricity used and when it is used.

Details of the proposed Market Rule Change

1) Outline the issue concerning the existing Market Rules that is to be addressed by the proposed Market Rule change:

When a customer without interval meter readings in the previous hot season transfers to a new retailer its Temperature Dependent Load for Individual Reserve Capacity Requirements (IRCR) determination is assumed to be its CMD or 1.1 times the MW figure formed by doubling the maximum Trading Interval demand by that customer (Appendix 5, step 5).

This approach significantly overstates the new retailer's IRCR as it does not take into account the diversity between peak loads on the SWIS. Individual customers' demand generally peaks in different intervals and the current methodology does not take that into account. For example, customers peaking at different times of the day, on weekends or even in the evenings are effectively all assumed to occur at the same time when determining the new retailer's IRCR.

It is estimated that the current treatment of loads without prior meter history leads to an increase in the IRCR requirement of about 60% compared to the methodology that applies to loads with meter history covering the relevant 12 intervals of the previous hot season.

The current treatment of the IRCR calculation for Temperature Dependent Loads without interval meter readings in the previous hot season is detrimental to achieving the following objectives of the market:

| Objective | Identified deficiency |
|------------------|--|
| (a) | The current treatment is significantly distorting the cost of supplying these customers potentially leading to economically inefficient production and supply of electricity to these customers. |
| (b) | The current treatment is a significant barrier to new retail entry and reduces the |

competitive pressure amongst retailers in the SWIS by allowing preferential treatment of the incumbent retailer.

- (d) The current treatment does not efficiently contribute to minimising the long-term cost of electricity because of the reduced competitive pressure identified in (b) and the distorted cost signals identified in (a).
 - (e) The current treatment does not efficiently contribute to the aim of encouraging measures to manage the timing of the use of capacity. In the short term customers have very limited ability to influence their overall capacity requirements. However, they do have the ability to influence when the maximum capacity is used, but are not incentivised to do so with the current treatment of the IRCR calculation for the group of customers without interval meter history for the preceding hot season.
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2) Explain the reason for the degree of urgency:

Alinta requests that this change proposal be progressed under the Fast Track rule change process for the following reason:

This change is urgently required and is essential for the effective operation of the market. The current version of the market rules presents a significant barrier to churn which impacts on retail competition and slows down the churn rate. Ultimately, this inefficiency in the operation of the market flows through to the end user through less downward pressure on prices.

3) Provide any proposed specific changes to particular Rules:

Alinta proposes that each new meter without hot season interval readings is assigned an amount equal to its actual demand in the interval that the SWIS peaks in each month. This change will ensure that the diversity of the particular customer's use of system capacity is reflected in the IRCR calculation.

Changes to Appendix 5, Step 5, will be required to implement this rule change. It is also proposed to change Appendix 5 to put beyond any doubt that the IRCR for new meters are recalculated each month until Hot Season data becomes available for those meters. This will ensure that the proposed changes do not create gaming opportunities in the market.

In addition, Appendix 5, Step 5, defines new meters as follows: "When determining the Individual Reserve Capacity Requirements for Trading Month n identify meters that were not registered with the IMO during the preceding Hot Season but which were registered by the start of Trading Month n-3". However, where a new meter is brought on during the hot season, but after the 12 peak Trading Intervals, this meter would not be attributed an IRCR. For example, a 10MW load, whose interval meter is commissioned on 20 March, is "registered during the Hot Season". If the last peak Trading Interval occurred on 7 March, however, the relevant load would not be attributed any IRCR for a period of 18 months. To avoid any potential for gaming by bringing on new meters towards the end of the Hot Season, Alinta proposes that new meters

will need to have recorded a reading for all of the 12 peak Trading Intervals during the Hot Season to be treated in the “normal way” for calculation of IRCR. If new meters do not have recorded meter readings for all 12 Peak Trading intervals during the preceding Hot Season, they will be treated under the alternative way proposed below for new meters.

Alinta proposes the following changes:

For the purpose of this Appendix:

- Steps 1 to 10 are repeated every month.
- [other dot points not shown]

STEP 5: When determining the Individual Reserve Capacity Requirements for Trading Month n identify meters that were not registered with the IMO during one or more of the 12 peak Trading Intervals in the preceding Hot Season but which were registered by the start of Trading Month n-3.

Identify the 4 Peak SWIS Trading Intervals of Trading Month n-3, being the 4 highest demand Trading Intervals, where demand refers to total demand, net of embedded generation, in the SWIS.

For a new meter u that measures Non-Temperature Dependent Load set ~~NMNTCR(u) equal to the Contractual Maximum Demand associated with that meter if such a value is stated in the corresponding consumer’s Arrangement for Access applicable from Trading Month n-3, otherwise~~ set NMNTCR(u) to be 1.1 times the MW figure formed by doubling the maximum Trading Interval demand for that meter during Trading Month n-3.

For a new meter v that measures Temperature Dependent Load set ~~NMTDCR(v) equal to the Contractual Maximum Demand associated with that meter if such a value is stated in the corresponding consumer’s Arrangement for Access applicable from Trading Month n-3, otherwise~~ set NMTDCR(v) to be 1.1 times the MW figure formed by doubling the maximum Trading Interval demand for that meter during the median value of the metered consumption for that meter during the 4 Peak SWIS Trading Intervals of Trading Month n-3.

For a new meter w that measures Intermittent Load set IILRCR(w) in accordance with Appendix 4A to the value applicable to Trading Month n.

4) Describe how the proposed Market Rule change would allow the Market Rules to better address the Wholesale Market Objectives:

Alinta believes that the proposed change to the Market Rules will improve the accuracy in cost allocation between retailers by more accurately reflecting the diversity of customers that do not have interval meter reading history for the preceding hot season.

The change will remove a significant disadvantage that currently applies to all but the incumbent retailer. The change will therefore facilitate competition in the supply of electricity and contribute to minimising the long term cost of electricity in the SWIS.

Finally, the change would allow customers to influence their contribution to IRCR by influencing their peak usage to fall at other times than the SWIS peak usage. The current rules do not give these customers any incentive to take into account their time of use pattern as their IRCR calculation is linked to their individual maximum consumption interval regardless of the time that consumption occurs.

For the reasons set out above, Alinta considers the change will better facilitate the achievement of objectives (a), (b), (d) and (e) of the Market Rules.

5) Provide any identifiable costs and benefits of the change:

Costs

Costs related to new process to identify SWIS system peak intervals for each month. Cost estimate should be obtained to establish the costs of making necessary changes to WEM systems. The IMO will be best placed to obtain these cost estimates.

Benefits

Appropriate allocation of reserve capacity costs among retailers, encouraging competition between retailers which will ultimately benefit customers through downward pressure on prices.
