
Wholesale Electricity Market – Rule Change Proposal Submission Form

RC_2008_27 Funding of Supplementary Reserve Capacity

Submitted by

Name:	Graeme Alford
Phone:	9475 0144
Fax:	9475 0173
Email:	graeme.alford@landfillgas.com.au
Organisation:	Landfill Gas & Power Pty Ltd
Address:	PO Box 861 CLOVERDALE WA 6985
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Submission

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

LGP supports the proposed Rule Change on the grounds that it removes a manifest error that stands to cause participants that purchase capacity credits from the IMO at the market price to be liable for funding the entire cost of procuring any requirement for Supplementary Reserve Capacity (SRC) for the market as a whole. In particular, such an impost would likely bankrupt a small retailer through no fault of its own and take no account of the causer or beneficiaries of the requirement for SRC. Moreover, with such a retailer having been bankrupted, the market still wouldn't get its money and the Market Rules default provisions would be invoked. Further, given that the number of capacity credits available equals the demand for them, the present rule facilitates an abuse of market power whereby a supplier with a surplus can demand an excessive premium for them under the threat of withholding them from the market. Indeed, such a possibility is facilitated by the fact that virtually all the capacity credits allocated to the dominant generator are allocated to the dominant retailer. LGP supports the proposal that the cost of SRC should be shared by all Market Customers.

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

LGP supports the IMO's contention that the proposal supports the market objectives by spreading the cost of Supplementary Reserve Capacity across all Market Customers rather than targeting individual Market Customers which may have little to do with triggering these costs, or benefit disproportionately from them. It will also encourage competition among retailers by removing their exposure to uncontrollable and uncapped liabilities and exposure to excessive capacity credit prices.

3. Please indicate if the proposed change will have any implications for your organisation, (for example changes to your IT or business systems) and any costs involved

LGP would incur no organisational costs as a consequence of adopting the change.

4. Please indicate the time required for your organisation to implement the change, should it be accepted as proposed

LGP would be able to implement this Rule Change immediately.
