Wholesale Electricity Market
Rule Change Proposal Submission Form

RC_2009_11 Changing the Window of Entry into the Reserve Capacity Mechainsm

Submitted by

Name:	Jenni Conroy
Phone:	6212 1661
Fax:	6212 1035
Email:	jenni.conroy@synergy.net.au
Organisation:	Synergy
Address:	228 Adelaide Tce Perth
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Submission

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

On 4 March 2009 the Independent Market Operator (IMO) submitted a Rule Change Proposal regarding changes to clauses 4.1.26 and 4.11.1 of the Wholesale Electricity Market Rules (Market Rules). Synergy endorses the rule change as proposed as a better solution for capacity payment alignment and a method of promoting system reliability.

The concept of shifting the window of entry for new entrant generators (facilities) was presented by the IMO to the Market Advisory Committee (MAC) at the December 2008 and February 2009 meetings.

Synergy notes that currently the timeframe for new capacity to enter the market is a four month window centralised around 1 October (the commencement of the capacity year), with facilities being able to claim payment for capacity credits as early as the 1 August. Synergy views the ability for facilities to receive payment for capacity credits early improves their cash flows and provides encouragement for them to commission well before the critical summer peak period. The problem in not encouraging early arrival is that late arrival of facilities can result in the IMO having to call a Supplementary Reserve Capacity (SRC) auction. Therefore having an incentive for early arrival is important and is the reason Synergy would avoid recommending no payment or reduced payment to facilities arriving earlier than 1 October. It is also noted that by not including the potential SRC savings inherent in the rule change proposal, the IMO may have overstated the resulting cost as presented in their Table 1: Possible Average Market Exposures.

Synergy raised other concerns at the MAC about the potential for increased inefficiencies within the WEM as a result of shifting the window of entry forward. More specifically, the earlier facilities enter and are paid before they are actually needed, the more inefficient the market is. It has a direct impact on customer tariffs, given their infrequent determination leading to a misalignment with actual capacity costs. It also further discourages a market customer offering bundled supply to its customers by increasing the capacity cost risk. Nevertheless this disincentive only translates into an increase in the risk premium passed on to bundled loads rather than a direct reduction in the number of bundled offers being made.

On balance, Synergy believes the incentives created to avoid lateness of facilities and any resulting SRC outweighs the potential costs of a shifted window of entry for capacity payments. Synergy supports the shifted window of entry as presented in the proposed rule change, partly as a better solution to capacity payment alignment and partly because it improves system reliability and better avoids the need for SRC.

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

Synergy accepts the IMO's view that the proposed rule change supports the operation of the Market Objectives. Specifically, Synergy views that the proposal supports market objective (a) by promoting safe and reliable production and supply of electricity in the South West Interconnected System.

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 in implementing these changes.

Synergy does not identify any substantial system cost implications in implementing this rule change.

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

Synergy does not anticipate that this rule change proposal will take a protracted period of time to implement.