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## Wholesale Electricity Market Rule Change Proposal Submission Form

### RC\_2010\_29 Curtailable Loads and Demand Side Programmes – Second Submission Period

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#### Submitted by

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#### Submission

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

Rule Change Proposal RC\_2010\_29 acts to amend the Market Rules to, among other things, ensure better consistency between the treatment of Curtailable Loads (**CLs**) and other capacity types.

Given the significant level of interest in this rule change, Synergy is encouraged by the IMO's decision to undertake a cost benefit assessment of the proposed amendments to RC\_2010\_29. While Synergy recognises that it is difficult to quantify the benefits, as opposed to the costs, Synergy is of the view that the IMO's assessment as to the qualitative benefits is a worthwhile exercise as it presents a structured assessment of the impact of the proposals, thereby providing a more informed basis on which to make a judgement concerning the merits of proceeding with the rule change.

In this regard, Synergy supports the IMO's conclusion that, overall, the proposed rule change is likely to result in a net benefit to the status quo. In particular, Synergy concurs with the IMO's assessment that the changes will deliver material reliability benefits (in the form of incentives to procure load to meet capacity credit commitments) and a material improvement in performance measurement (in the form of aligning Relevant Demand (**RD**) measurement with Individual Reserve Capacity Requirement (**IRCR**) intervals and by removing the potential for planned outages to inflate RD levels).

Synergy notes that it has been suggested that the proposed changes should be held in abeyance because the review of the Reserve Capacity Mechanism (**RCM**) currently underway may give rise to implications in respect of the treatment of Demand Side Programmes (**DSPs**) within the RCM. As it is uncertain what the review will deliver in respect of DSPs and if, or when, this may transition into rule changes, Synergy does not support forestalling the progress of RC\_2010\_29 as it proposes solutions

to a number of much discussed and agreed issues (the MAC discussed the proposal on five separate occasions during 2010).

Synergy's views on Issues 1, 2, 3, 5, 6, 7 and 8 remain unchanged from its first period submission. In respect of Issue 4, which deals with measuring CL performance, Synergy provides the following comments:

- **Aligning RD with IRCR measurement makes sense:** Synergy notes that consultant MMA, engaged to advise the methodology that best represents DSM curtailability at peak times during the Hot Season, concluded that the IRCR method was the most reliable indicator of such capacity. The proposal to alter the measurement basis of RD (which sets the maximum level of capacity credits that can be assigned to a DSP) is to be applauded, as it aligns the capacity reserved for an underlying load to that which it can subsequently provide by reducing its demand.
- **Potential for double payment removed:** Synergy recognises that one objective of the RCM is to signal the cost of capacity installed to meet customer demand; it is a legitimate strategy for customers to seek to reduce their share of capacity costs by taking measures to reduce the demand that they impose on the system at peak times. Such action translates into reduced system peak demand which in turn reduces total capacity installed. Basing the RD calculation on the peak demand periods, as measured by the IRCR process, identifies the capacity allocated to or reserved for and paid by loads and therefore also identifies the capacity that can be made available by those loads should they elect to reduce their demand. Continuing with the current RD calculation basis of 32 Trading Intervals, or indeed adopting a dynamic baseline approach, would not address the potential for a difference to arise between the RD quantum (sets the maximum Capacity Credits (CCs) a DSP can claim) and its IRCR quantum (sets the capacity reserved for a DSP). In Synergy's view, promoting arrangements that contemplate an outcome whereby CCs claimed by a DSP exceed its associated IRCR would be highly undesirable. It would, in effect, be sanctioning an outcome where capacity not allocated to, or reserved for, a DSP could be claimed as capacity that the DSP can seek a payment for through the RCM. This raises considerable equity issues as it is definitely arguable as to whether the DSP has any disposition rights to capacity which was not allocated to or reserved for it. There is little doubt that customers would object to paying for capacity from a DSP where that DSP did not initially reserve or pay for that capacity; customers would perceive that they would, in effect, be paying twice for the same capacity.
- **Premature to adopt dynamic baseline methodology:** Synergy has concerns that the market is not yet fully conversant with the implications of adopting a dynamic baseline methodology as a basis for measuring DSP performance. It would therefore be premature to consider adopting it without further study and analysis of how it might work in practice. For example, it may be appropriate to seek advice from independent consultants as to the nature of a look-back mechanism (e.g. best 5 out of 10 business days) that can reliably represent a DSP's baseline consumption and therefore what level of capacity is likely to be available to curtail. Synergy is also aware that other Market Participants have raised concerns that the dynamic baseline methodology would mean that a DSP's required level would no longer be fixed and that this would introduce a new risk into managing capacity delivery from a DSP portfolio. In Synergy's view, the dynamic baseline methodology is also complicated in comparison with current arrangements and when taken together with the prospect of a variable required level may reduce the willingness of loads to participate in providing capacity. Further, it would require that the DSP aggregator institute systems and processes to closely monitor the performance of its loads to determine its position relative to its obligations at any point. Synergy notes that the inherent complexity of the dynamic baseline approach together with the requirement for a monitoring capability may represent a barrier to entry and result in a loss of efficiency for the market as a whole. In Synergy's view, the dynamic baseline methodology has sufficient merit to warrant further consideration to explore, amongst other things, options and variations that simplify the methodology without compromising its key deliverable of providing an increased level of assurance about capacity available from DSPs.

In summary, Synergy sees merit in proceeding with RC\_2010\_29 as set out in the draft report as it will implement changes that have been refined and improved as a result of a number of reviews by MAC. Synergy does acknowledge that an alternate methodology (dynamic baseline) to assess DSP performance has recently been discussed, but is of the view that significant development work is required before it can be further considered by the market. Synergy notes, as has been the case with the development of this rule change, that the market may require a new methodology, such as the dynamic baseline, undergo an extended iterative process prior to final consideration. Given this, Synergy considers that the market should not give up an opportunity to implement the well considered changes in the form of RC\_2010\_29 on account of the prospect of considering another methodology that is in the early development stage and that may ultimately be rejected by the market.

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

Synergy believes that providing investors in intermittent generation projects with clear market investment signals will address a fundamental value that underwrites the market.

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**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.**

Should this Rule Change Proposal be accepted, Synergy would not require any changes to IT or business systems, nor incur any organisational costs as a consequence of adopting the proposed change.

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

Should this Rule Change Proposal be accepted, Synergy would be able to implement this rule change immediately.

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