
Wholesale Electricity Market Rule Change Proposal Submission Form

RC_2012_21: 5 – Yearly Review of the Planning Criterion

Submitted by

Name:	Fiona Edmonds
Phone:	08 9486 3009
Fax:	08 9226 4688
Email:	fiona.edmonds@alintaenergy.com.au
Organisation:	Alinta Energy (Alinta)
Address:	Level 13, 1 William Street PERTH WA 6000
Date submitted:	18 January 2013

Submission

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

Background

Under clause 4.5.15 of the Wholesale Electricity Market Rules (Market Rules) the IMO is required to conduct a review of the Planning Criterion and the process by which it forecasts South West interconnected system (SWIS) peak demand at least once in every five year period. The Planning Criterion (defined in clause 4.5.9) sets the minimum acceptable level of generation and Demand Side Management capacity in the SWIS, which is known as the Reserve Capacity Requirement.

During 2012 the IMO engaged Market Reform, an independent consultant, to undertake this review which involved a public consultation process. The IMO published its final report on the outcomes of the review in November 2012 which contained the following recommendations:

- The form of the current Planning Criterion be retained;
- The Reserve Margin be lowered from 8.2% to 7.6%; and
- The unserved energy component of the Planning Criterion be retained due to its role in the determination of the Availability Curve.

Subsequently the IMO has developed the Rule Change Proposal: 5-Yearly Review of the Planning Criterion (RC_2012_21) to implement the review's recommendation to reduce the Reserve Margin from 8.2% to 7.6%.

The IMO contends the proposed amendment will optimise the costs of procuring capacity and the level of unserved energy (for which there is a known trade-off required) given the current SWIS context and expected changes in the market over the next five years. The recommended changes will promote an economically efficient and reliable level of reserve margin that seeks to minimise the total system cost.

Alinta's views

1. Combined impact on the Reserve Capacity Price (RCP) of the various work streams needs to be understood

Alinta notes that there are a number of work streams underway that both directly and indirectly potentially impact on the RCP for future Reserve Capacity Cycles. These include:

- The outcomes of the Reserve Capacity Mechanism Working Group's consideration of the Reserve Capacity Price;
- The outcomes of the annual Maximum Reserve Capacity Price (MRCP) review; and
- The changes proposed under RC_2012_21 (5 yearly review of the Planning Criterion).

Alinta also notes the Economic Regulation Authority's (ERA) upcoming review of the methodology for determining the MRCP under clause 2.26.3 of the Market Rules will have likely downstream implications on the RCP.

The IMO's proposed reduction in the Reserve Margin to 7.6% is only likely to result in a reduction in the RCP of 0.54% on average¹. Alinta however notes the importance in continuing to consider the overall impact on the RCP that the combined outcomes from the various work streams will have (where this is known and identifiable). This is important given the RCP provides investment signals for the development of new generation assets in the WEM.

2. Overarching review of the WEM required

Wider concerns about the need for an overarching review of the WEM rather than the current piecemeal approach have been raised previously by Alinta as a necessary precursor to achieving an effective market design. This is particularly the case given the potential overlap in the issues being considered by various work streams (as is the case with the work streams noted above that will impact on the RCP) and the significant interdependencies between the current market designs features.

Alinta supports conducting a broad review of the effectiveness of the current design of the WEM with a particular focus on the following areas:

- Removing unnecessary costs in the WEM; and
- Ensuring appropriate incentives are provided to investors in generation facilities.

¹ The IMO notes on page 8 of its Final Report that as the RCP is proportional to the Reserve Capacity Requirement, the recommended change will result in a reduction to the Reserve Capacity Price of 0.54% on average.