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**Wholesale Electricity Market  
Rule Change Proposal Submission Form****RC\_2012\_21 5-Yearly Review of the Planning Criterion**

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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.**

**Background**

The Reserve Capacity Requirement (RCR) in the Wholesale Electricity Market (WEM) is set by the Planning Criterion in clause 4.5.9 of the Market Rules. The level of RCR refers to the minimum forecast amount of MWs of capacity that must be available in the WEM in a certain Reserve Capacity Year. The RCR is satisfied by capacity from conventional generators, renewable generators and Demand Side (DSM) measures (load reduction).

The current Planning Criterion requires the RCR to be set to the greater of 8.2% of the forecast one in ten year peak demand and the capacity of the largest single unit generator on the system. In addition, the Planning Criterion also requires the RCR to be set to a level that is consistent with having 0.002% or less unserved energy. The unserved energy component of the current Planning Criterion has to date not been a binding constraint on setting the RCR.

Clause 4.5.15 of the Market Rules calls for a review of the Planning Criterion at least every five years. The most recent review was completed in November 2012 and was supported by analysis and a report provided by independent consultants Market Reform. Following the

review, the Independent Market Operator (IMO) has proposed to amend the first component of the Planning Criterion to be 7.6% of the forecast one in ten year peak demand instead of 8.2%. The IMO has proposed to retain all other aspects of the Planning Criterion.

## Change Proposal

The IMO submitted Rule Change Proposal 2012 21 “5-Yearly Review of the Planning Criterion” on 18 November 2012.

The IMO proposed to amend the Planning Criterion in clause 4.5.9 of the Market Rules by amending the uplift factor for the reserve margin component from 8.2% to 7.6% of the forecast one in ten year peak demand.

## Perth Energy’s Views

Perth Energy does not support the IMO’s Rule Change Proposal.

In our response to the IMO consultation on the draft report by Market Reform following their review of the Planning Criterion we set out our views on the Planning Criterion. Perth Energy continues to believe that in light of the isolated nature of the South West Interconnected System (SWIS) and the recent history of multiple concurrent generator outages it is not prudent to relax the Planning Criterion as proposed by the IMO. Perth Energy would ideally like to see the Planning Criterion strengthened to cater for the concurrent loss of two generator units. Such a change would allow the system to cope with concurrent outages in future, when the current large capacity cushion has diminished and no longer provides “free” insurance for such events.

In any event, Perth Energy does not believe the analysis presented by Market Reform in its final report<sup>1</sup> provides a compelling case for amending the uplift factor from 8.2% to 7.6%. Indeed, the report presents a number of potential “optimum” settings for the uplift factor ranging from 7.12% to 8.93% with assumptions around outages and the capacity price having significant impacts on the point estimation of the optimal uplift factor. Given the sensitivity of the point estimate to the assumptions made to conduct the analysis Perth Energy considers an uplift factor somewhere closer to the middle of the range to be appropriate. The current uplift factor of 8.2% is only marginally different to the midpoint of the range (being 8.025%) and should therefore be retained. As discussed above, Perth Energy would ideally also like to see the Planning Criterion catering for concurrent losses of multiple generators.

In the IMO’s final report on the 5-Yearly Review of the Planning Criterion<sup>2</sup> it acknowledged that determining the Planning Criterion will always involve a trade off between the system security and economic efficiency components of Market Objective (a)<sup>3</sup>. Perth Energy has not

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<sup>1</sup> Available from [http://www.imowa.com.au/f184,3029340/IMO\\_Planning\\_Criterion\\_Review\\_-\\_Final\\_Report\\_2012-10-10.pdf](http://www.imowa.com.au/f184,3029340/IMO_Planning_Criterion_Review_-_Final_Report_2012-10-10.pdf)

<sup>2</sup> Available from [http://www.imowa.com.au/f184,3029344/Planning\\_Criterion\\_review\\_2012\\_Final\\_Report.pdf](http://www.imowa.com.au/f184,3029344/Planning_Criterion_review_2012_Final_Report.pdf)

<sup>3</sup> 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;

seen any detail provided by the IMO in making its determination that would support the view that the proposed changes will lead to a better achievement of Market Objective (a). There appears to be no discussion in the IMO's final report, nor in this rule change proposal around what the magnitude of the potential positive economic benefits of lowering the reserve margin might be and comparing and contrasting these benefits with the potential negative security and economic related consequences of experiencing a multiple, concurrent generator outage at a time of system peak when no additional "free" capacity cushion exists.

Perth Energy believes that a change to the Market Rules should only be made when there is a demonstrated overall positive impact on the ability of achieving the Market Objectives. Where a potential rule change has both positive and negative impacts on one or more Market Objectives, the IMO should satisfy itself that the positive impacts clearly outweigh any negative impacts before making a decision to implement a proposed rule change. Perth Energy does not believe a robust case for change has been presented for RC 2012 21.

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

Perth Energy does not agree with the IMO's assessment that lowering the uplift factor for the reserve margin component from 8.2% to 7.6% will result in benefits to Market Objectives (a) and (d). While there may be some cost benefits in the short term, we believe that any benefits may be overwhelmed by the adverse impacts arising from system outages as a consequence of the reserve margin being reduced. The net effect is likely to negatively impact on Market Objectives (a) and (d).

Perth Energy has been concerned for some time with the SWIS relying on a growing reserve margin based on unreliable capacity such DSM and very old plant that has failed consistently to satisfy the certification conditions under the Market Rules. This reserve margin is fragile. In addition, the constant changes to the Reserve Capacity Price derivation methodology have caused a loss of confidence in the generation investment market, deterring proponents from considering new investments. Perth Energy believes that it may take several years for the consequences of these changes to become apparent. In light of this we view that it is highly imprudent to implement any further changes which will impact the reserve margin. Perth Energy recommends that the IMO err on the side of caution and not pursue this change proposal at the current time. We view that it is more prudent for the IMO to review the necessity for this change in 12 to 24 months' time.

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(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.

- 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.**

Perth Energy has not identified impacts on our IT or other business systems. However, the costs to Perth Energy and our customers stemming from deterioration in the **reliable** capacity reserve margin could be significant.

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

Perth Energy does not recommend this change.