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Dear Allan

WEM RULE CHANGE PROPOSAL RC_2008_34 – FUNDING OF SUPPLEMENTARY RESERVE CAPACITY IN THE EVENT OF CAPACITY CREDIT CANCELLATION

Thank you for the opportunity to comment on Rule Change Proposal RC_2008_34 “Funding of Supplementary Reserve Capacity Credit in the event of capacity credit cancellation”. This letter sets out the view of Alinta Sales Pty Ltd (Alinta).

The proposed change

On 2 October 2008, the IMO submitted RC_2008_34, proposing to change the Wholesale Electricity Market Rules (“the Market Rules”) relating to the funding of Supplementary Reserve Capacity (SRC) in the event of capacity credit cancellation.

RC_2008_34 is intended to supplement RC_2008_27 (Funding of SRC), which has not yet been implemented. If implemented, RC_2008_27 would move any net payments that might be made by the IMO for Supplementary Capacity Contracts out of the Targeted Reserve Capacity Cost into the Shared Reserve Capacity Cost, which would be shared amongst all Market Customers.

RC_2008_34 would further amend the Market Rules so that in certain circumstances the cost of Supplementary Capacity Contracts would be targeted at specific Market Participants, rather than being included in the Shared Reserve Capacity Cost. These circumstances include where:

- a facility fails a second reserve capacity test and the IMO reduces the number of reserve capacity credits held by the Market Participant for that facility (existing clause 25.4);
- a Market Participant applies for a reduction in the number of reserve capacity credits held by the Market Participant for a facility (existing clause 25.4C); and
- a facility suffers an extended Forced Outage (proposed new clause 4.28.4B).



In the first two situations, the maximum payment that a Market Participant would be required to make to the IMO would be equal to the full value of the reduced reserve capacity credits based on:

- the Reserve Capacity Price (divided by 12), if a Reserve Capacity Auction was held; or otherwise
- 85 per cent of the Maximum Reserve Capacity Price (divided by 12).

In the case of an extended forced outage (the third situation), the maximum payment would be equal to half the value of the reduced reserve capacity credits based on:

- the Reserve Capacity Price (divided by 12), if a Reserve Capacity Auction was held, or otherwise
- 85 per cent of the Maximum Reserve Capacity Price (divided by 12).

Alinta's view

Alinta supports in principle the thrust of the amendments to the Market Rules that would result from RC_2008_34. However, Alinta considers that the proposed amendments require further consideration and that as currently worded RC_2008_34 may not better contribute to the achievement of the wholesale market objectives.¹

Alinta has previously commented (in relation to RC_2008_27) that it considers that the guiding principle for allocation of costs should be to target those costs as far as possible to those that cause the costs and are therefore best placed to manage the associated risk factors.

For this reason, Alinta did not support RC_2008_27, as it considered that that rule change, in isolation, would not better contribute to the achievement of the wholesale market objectives. Specifically, Alinta commented that in its view RC_2008_27.

- *The Rule Change may not facilitate the efficient new entry of competitors, particularly in the generation sector.*

To the extent that small retailers do not hold sufficient capacity credits to meet their IRCR, they may be exposed to material SRC costs (relative to their cost base) under the current market rules. RC_2008_27 would expose each retailer to SRC costs in proportion to their IRCR, which may significantly reduce the financial exposure of small retailers that do not hold sufficient capacity credits to meet their IRCR. Consequently, RC_2008_27 may support retail market entry.

¹ The objectives of the Market Rules are contained in Market Rule 1.2.1 and 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";
- (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"; and
- (d) "to minimise the long-term cost of electricity supplied to customers from the South West interconnected system".
- (e) "to encourage the taking of measures to manage the amount of electricity used and when it is used"



However, RC_2008_27 potentially also removes incentives for retailers, including small retailers, to efficiently contract with new entrant electricity generators and underpin long term investment in generation. The risk of delays in the commissioning of new generation plant, which led to RC_2008_27, is a prime example. Consequently, RC_2008_27 may not support efficient new entry of generations in the South West interconnected system or efficient retail competition.

- *The Rule Change may not promote the economically efficient, safe and reliable production and supply of electricity and electricity related services in the South West interconnected systems.*

RC_2008_27 (of itself) is not likely to promote the economically efficient supply of electricity as it removes incentives from new entrant retailers to effectively manage their contractual relationships with capacity providers.

RC_2008_34 would overcome the main short comings of RC_2008_27, as it would amend the Market Rules to specifically target the cost of Supplementary Capacity Contracts at individual Market Participants where those participants were directly responsible for the requirement to procure SRC.

However, Alinta has two concerns with respect to the specific amendments to the Market Rules being proposed as part of RC_2008_34. These are as follows.

1. Under Market Rule 4.8.3, loads comprising Demand Side Management (DSM) programs are registered as a Curtailable Load, and the IMO is required to (individually) assign Certified Reserve Capacity and Reserve Capacity Obligations to those Facilities.

Alinta is concerned that under the proposed Market Rule 4.28.4A, the churn of a customer that is participating in a DSM program, and is therefore registered as a Curtailable Load, may expose a Market Participant to SRC costs even if the Market Participant registered an equivalent amount of new Curtailable Load to replace the amount of churned Curtailable Load (and the new relevant Facilities were assigned Certified Reserve Capacity and Reserve Capacity Obligations by the IMO).

Under such a scenario, there would be no net change in the Curtailable Load or the number of Capacity Credits that the Market Participant is making available to the market, although the specific Facilities that provided those Capacity Credits would have changed.

It is unclear whether under the proposed Market Rule 4.28.4A(a) the mere changing of loads that were registered as Curtailable Load could expose the Market Participant to potential SRC costs.

2. The proposed new Market Rule 4.28.4B refers to an 'extended Forced Outage', which does not appear to be a defined term in the Market Rules [although the term is used in Market Rule 4.12.2(d)].

To provide clarity to Market Participants, Alinta considers that the Market Rules should define when a 'Forced Outage' (or multiple 'Forced Outages') constitute an 'extended Forced Outage'.

In principle, Alinta considers that, taken together, RC_2008_27 and RC_2008_34 are likely to better contribute to the achievement of wholesale market objectives (a) and (b) relating to efficiency and competition and therefore should be approved.



However, Alinta believes it essential that:

- the proposed Market Rule 4.28.4A(a) be clarified to ensure it does not expose a Market Participant to potential SRC costs as a result of the mere changing of the Facilities providing the Capacity Credits; and
- the term 'extended Forced Outage' be defined in the Market Rules.

Consequently, Alinta believes RC_2008_34, as currently worded, may not better contribute to the achievement of the wholesale market objectives.

- *The Rule Change may discourage the taking of measures to manage the amount of electricity used and when it is used.*

As noted above, under RC_2008_34 there appears to be a risk that retailers offering DSM products would be exposed to the SRC costs, even where there been no net change in the number of Capacity Credit available to the market. If this were the case, RC_2008_34 is likely to discourage retailers from offering DSM products.

- *The Rule Change may not minimise the long-term cost of electricity supplied to customers from the South West interconnected system.*

If RC_2008_34 discourages retailers from offering DSM products, the long-term cost of electricity supplied to customers from the South West interconnected system is unlikely to be minimised.

- *The Rule Change may discriminate 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.*

As noted above, RC_2008_34 may discourage retailers from offering DSM products.

Given the linkages already drawn between the two rule change proposals (i.e. RC_2008_27 and RC_2008_34) by the IMO, Alinta also considers the IMO should direct that the implementation timetable for RC_2008_34 be set so that it coincides with the likely implementation timetable of RC_2008_27.

IT systems and cost implications

Alinta has not identified any cost impact for its own IT systems.

Time required for implementation

Alinta does not require any specific lead time to allow implementation of the proposal.

However, as noted above, given the linkages already drawn by the IMO between RC_2008_27 and RC_2008_34, Alinta considers the IMO should direct that the implementation timetable for RC_2008_34 be set so that it coincides with the likely implementation timetable of RC_2008_27.



If you require further information, or wish to discuss the above comments in more detail, I can be contacted on 9486 3749.

Yours sincerely

A handwritten signature in blue ink, appearing to read "Corey Dykstra", is shown on a light background.

Corey Dykstra
Manager Regulatory Affairs
Alinta Sales Pty Ltd