
Wholesale Electricity Market Rule Change Proposal 2nd Submission

RC_2008_34: Funding of SRC in the event of capacity credit cancellation

Submitted by

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Submission

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

This submission should be read in conjunction with Verve Energy's first submission.

Following the first consultation exercise and publication of the Draft Rule Change Report, thank you for conducting the 28 April public forum and subsequently circulating McLennan Magasanik Associates (**MMA's**) report discussing issues arising from debate at the forum. The forum discussion was very useful and the MMA report captures the key issues very well. The IMO is to be commended for its willingness to ensure that arguments opposing the proposed Rule Change are appropriately considered.

Verve Energy maintains the position it took in its first submission, that it does not support the Rule Change as proposed, and agrees with MMA's conclusion that a new process is established to examine the issues raised in submissions, and canvassed at the forum, before finalising the Rule Change. Indeed, it is suggested that the proposed Rule Change is rejected so that the issue of SRC funding can be appropriately revisited in a time frame not impacted by any limitations that may be imposed by the Rule Change process with respect to the processing of RC_2008_34.

The key issue to be determined is the extent to which generators offering plant into the Reserve Capacity Mechanism are guaranteeing the availability of that plant and hence

‘underwriting’ the reliability of the system. Verve Energy’s position is that it is correct to assume that no plant is reasonably capable of achieving 100% availability and, indeed, the Reserve Capacity payment does not include a premium to achieve that level of performance. Accordingly, it is reasonable to conclude that the capacity refund mechanism is the limit to which generators should be exposed in relation to unplanned outages.

If Verve Energy’s position is not supported and the IMO chooses to continue with the ‘causer pays’ principle with the causer identified as the ‘offending generator’, it is considered that Reserve Capacity refunds should first fund any SRC costs, that the offending generator should only have to pay the cost over and above what the market would otherwise have paid in the absence of SRC (maybe hard to determine), the exposure should be capped at an appropriate level, and the period that SRC is called for should be clearly defined.

Thank you again for the opportunity to comment on the proposed Rule Change. Verve Energy strongly requests that the IMO embraces the MMA recommendation that the proposed Rule Change should not proceed pending a broader review whereby the detailed matters identified in its report are considered further by an appropriately assembled industry working group.