
Wholesale Electricity Market Rule Change Proposal Submission Form

RC_2008_34 Funding of SRC in the event of capacity credit cancellation

Submitted by

Name:	Stephen Cole
Phone:	08 9423 6100
Fax:	08 9423 6176
Email:	stephen.cole@newmont.com
Organisation:	<i>Newmont Power Pty Ltd (Retailer and distribution network owner) and NP Kalgoorlie Pty Ltd, part owner of Goldfields Power Pty Ltd (Retailer and Generator) and the Parkeston Power Station and various Newmont Australia Ltd owned or part owned Facilities who are electricity consumers (collectively "Newmont")</i>
Address:	388 Hay Street Subiaco WA 6008
Date submitted:	20 May 2009

Submission

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

Newmont is opposed to the proposed rule change as if implemented the change will act to reduce competition and efficiency of the SWIS electricity market, and increase the cost of electricity to consumers in the SWIS.

There is already a mechanism to incentivise generator reliability – the Capacity Refund Mechanism. This mechanism can lead to significant financial penalties for failing to make capacity available – especially during peak periods. Making generators liable for SRC costs adds significantly to individual generators financial risk (and significantly alters price signals in the market) without acting to improve reliability. The IMO has undertaken to review the whole Capacity Market structure (rather than individual rules relating to it) as part of its "Road Map". Newmont believes it would be sensible to delay any decisions on fundamental changes to the capacity market until after any such review takes place, rather than make

changes to individual rules which shift the market significantly from its original design position.

Newmont expects that if the proposal is implemented it would need to give serious consideration as to whether it is still willing to offer its share of generation to the market.

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

Market Objective (a)

One of the fundamental design features of the WEM is that electricity consumers pay for the electricity, including installation sufficient capacity for most conditions. The providers of capacity face significant penalties (in the form of capacity refunds) should they fail to provide the capacity they are contractually obligated to provide. The design of the SRC measure intended that the SRC process would only be incurred infrequently, perhaps once every 10 years and for that very rare event the cost of such a measure would be shared across all consumers whatever the cause of the event, consistent with the fundamental concept that users pay. The proposed measure would result in generators needing to provide for large contingent liability which the chances of occurring is unlikely, but may lead to an insolvency event at any time if it does. Such a provision may be via insurance or as a balance sheet item; in either case adding a cost to generation. Effectively every MW in the market must carry an charge, and this is cost is imposed 10 out of 10 years by every generator, rather than being incurred (say) 1 out of 10 years. This could quite likely lead to costs many times more than the expected costs of SRC being borne by the market – which is clearly inefficient.

Even if the proposal is implemented, there may not be a resultant increase in reliability in the network. Generators and capacity is by nature not 100% firm – though are generally quite reliable. It can cost large amounts of capital to obtain incremental reliability increases (if at all – some events you cannot account for... and the Market Rules do not recognise Force Majeure). Adding a risk cost of significant additional capacity payments to generators may not increase reliability at all.

Market Objective (b)

The proposed rule change will act to lessen competition as new entrants will be discouraged from entering the market due to the substantive additional risk arising from the rule change.

Market Objective (d)

The proposed rule change will raise the price of electricity as a result of lessened competition and the need for individual generators to fully provide for the contingent liability in every year.

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.

N/A

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

N/A
