Wholesale Electricity Market
Rule Change Proposal Submission Form

RC_2008_35 Capacity Refund Mechanism – New Generators

Submitted by

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Submission

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

Background

Capacity from new facilities may currently be made available to the market at any time during a four-month window (between 1 August and 30 November) centralised around 1 October. Market Participants are able to nominate any date within the window, and may revise their expected entry date as the project nears completion.

It is understood that the objective of allowing new Facilities to enter the market and receive Capacity Credit payments from as early as 1 August is to encourage new Facilities to enter the market as early as possible, with any subsequent delays in commissioning and/or unplanned outages then less likely to affect the power system over the summer period (when demand reaches system peaks).

All Facilities (including new Facilities) are liable to refund Capacity Credit payments in accordance with Market Rule 4.26.1 for any unplanned outages. Refund multipliers are highest in February and March, followed by December and January. However, in aggregate, the total of any Capacity Credit refunds paid by a Market Participant to the IMO in any year is capped at the value of Capacity Credit payments received for that year.[1]

[1] The value of Capacity Credit payments is established by assuming the IMO acquired all of the Capacity Credits held by the Market Participant at the Maximum Reserve Capacity Price, which is administratively determined.

RC_2008_35 would amend the Market Rules to also impose seasonal caps on the maximum refund of Capacity Credit payments as follows.

- 10 per cent of the annual value of reserve capacity credits for the period 1 October to 1 December.
- 25 per cent of the annual value of reserve capacity credits for the period 1 December to 1 February.
- 35 per cent of the annual value of reserve capacity credits for the period 1 February to 1 April.
- 30 per cent of the annual value of reserve capacity credits for the period 1 April to 1 October.

It is argued that RC_2008_35 is necessary as the current Capacity Credit refund mechanism is punitive for new facilities. It is suggested that new facilities have a different risk profile to existing generators, and that there is a higher risk that new facilities might be unable to commission and be made available to the market by the close of the four-month window on 30 November.

Alinta's views

Alinta does not support RC_2008_35.

Firstly, although it is understood that RC_2008_35 was motivated by a concern that the Market Rules do not recognise the unique risks faced by **new** facilities, as currently proposed RC_2008_35 would apply to **all** (i.e. new and existing) facilities. In any event, Alinta considers it would be inequitable for new facilities to receive the same level of Capacity Credit payments if the Market Rules were to accept a lower level of reliability from those facilities compared to existing facilities. (Acceptance of a lower level of reliability is implied if refunds for new facilities were capped but refunds for existing facilities were not).

Secondly, at the margin the reliability and security of the electricity system may be dependent on capacity from new facilities being available no later than the close of the four-month window. If that capacity were not available by 1 December, costly Supplementary Reserve Capacity may be required to be procured. Therefore, it is appropriate that the Market Rules provide a strong financial incentive for new facilities to be available by 1 December.

Imposing seasonal caps on the refund of Capacity Credit payments is likely to only benefit new facilities that experience extended forced outages and may at the margin, weaken the financial incentive in the Market Rules for new facilities to be available on time (i.e. by 1 December).

Further, capacity from new facilities may currently be made available to the market at any time between 1 August and 30 November. By allowing new facilities to enter the market as early as August, a time when the additional capacity is unlikely to be of material benefit to the electricity system, new facilities are afforded an opportunity to commission and resolve immediate post-commissioning issues ahead of when electricity demand may reach system peaks (i.e. December through to March).

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

1. *It is unlikely that RC_2008_35 would promote the economically efficient, safe and reliable production and supply of electricity and electricity related services in the South West interconnected system.*

   There is no evidence that RC_2008_35 would result in the more economically efficient, safe and reliable production and supply of electricity.

   RC_2008_35 imposes seasonal caps on the refund of Capacity Credit payments. Consequently, if a situation arose where a market participant was required to refund Capacity Credit payments, it is possible that the amount of the refund may be less than the amount that would result under the current Market Rules (which is uncapped), increasing the net cost of capacity to the market.

   RC_2008_35 provides no incentive (financial or otherwise) for new facilities to reduce the probability of unplanned outages.

2. *It is unlikely that RC_2008_35 would encourage competition among generators and retailers in the South West interconnected system, including by facilitating efficient entry of new competitors.*

   The entry of new facilities into the market is subject to a significant number of project and financial risks. It is unclear that RC_2008_35 would materially alter the project's overall risk profile.

3. *RC_2008_35 may not avoid discrimination in the 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;*

   It is possible that RC_2008_35 would be of greater benefit to new peaking plant facilities compared with new base load facilities, given the greater reliance of peaking plant on capacity payments.

4. *It is unlikely that RC_2008_35 will reduce the long-term cost of electricity supplied to customers from the South West interconnected system.*

   As noted above, if a situation arose where a market participant was required to refund Capacity Credit payments, it is possible that the amount of the refund may be less than the amount that would result under the current Market Rules (which is uncapped), increasing the net cost of capacity to the market.

   It is understood that RC_2008_35 was motivated by a concern of the unique risks faced by new facilities, but as currently proposed would apply to all capacity provided by market participants. That is, it appears to be unnecessarily broad in its application, which may lead to greater than necessary capacity costs.

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.

Alinta has not identified any cost impact from RC_2008_35 for its IT or business systems.

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

Alinta has not identified any cost impact from RC_2008_35 for its IT or business systems.