
Wholesale Electricity Market Rule Change Proposal Submission Form

<RC_2012_10 Limits to Early Entry Capacity Payments>

Submitted by

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Submission

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

Verve Energy supported the original Rule Change Proposal (RC_2009_11) which brought forward the window of entry for new Facilities by two months. At that time Verve Energy considered that the revised window struck the appropriate balance between the risk that commissioning delays may impact on security of supply and the potential increased costs of procuring capacity two months earlier.

Verve Energy's view has not changed. However, in noting this Verve Energy wishes to provide further clarification.

The original Rule Change Proposal was intended to encourage new Facilities to enter the market as early as possible, with any subsequent delays in commissioning and/or unplanned outages (i.e. Forced Outages) being less likely to affect the security and reliability of the power system over the summer period when demand reaches system peaks.

Verve Energy considers that the risk profile associated with commissioning Scheduled or Non-Scheduled Generators differs materially to that of Curtailable Loads, Dispatchable Loads and Interruptible Loads. This is principally because capacity provided by Curtailable Loads, Dispatchable Loads and Interruptible Loads are typically existing loads, and so would not be expected to require an extended period to ensure they are commissioned. Even if newly accredited Curtailable Loads, Dispatchable Loads and Interruptible Loads were not existing loads, Verve Energy considers it unlikely that capacity provided by such loads would

represent a risk to the security and reliability of the power system over the summer period. While Verve Energy concedes that there are some "activities" that Curtailable Loads, Dispatchable Loads and Interruptible Loads need to complete in order to ensure readiness (for example, installing and testing telecommunications equipment) Verve Energy does not consider these "activities" to be comparable to the activities required to commission a thermal generation plant, for example.

As such, it is Verve Energy's opinion that Scheduled or Non-Scheduled Generators are the participants who face the risk of commissioning delays that may impact the security and reliability of the power system over the summer period, and therefore these are the participants to whom the original Amending Rules were intended to apply to.

In that respect, Verve Energy is supportive of Synergy's Rule Change Proposal. However, in noting this support, Verve Energy considers that the proposal should apply from a later Reserve Capacity Cycle to what Synergy suggests. This is because the certification process for the 2011 Reserve Capacity Cycle is complete, and participants may already be contracting under the assumption that the early capacity payment would be available. Verve Energy considers that amending the rules to apply for the 2011 Reserve Capacity Cycle would add undue regulatory risk to those participants affected.

Verve Energy does not support the IMO's counter proposal to remove the early entry capacity payments in their entirety. Verve Energy notes that while in a period of oversupply the drivers for the original rule change proposal are somewhat diluted however there may come a time when such an incentive for early entry would be desirable again i.e. should there be a shortfall in the future. As such, Verve Energy suggests that the IMO consider amending Synergy's proposal to only trigger the early entry capacity payments in times of tight supply. While this concept may seem complex at first, Verve Energy considers that it has merit and is worth investigating.

Additionally, Verve Energy notes the following:

- Clause 4.1.26 of the Wholesale Electricity Market Rules has been amended a number of times since market start and currently includes different rules for a number of Reserve Capacity Cycles. Verve Energy is concerned that regular amendments to this clause may undermine the stability and integrity of the Reserve Capacity Mechanism (RCM). Therefore Verve Energy considers that any further amendments to this rule should be future-proofed as much as possible, i.e. to enable the incentive mechanism when supply is tight, but not cost the market when the early entry is not required; and
- There are currently three separate pieces of work underway all of which are dealing with similar issues¹, these are: the RCM Working Group, this Rule Change Proposal and Synergy's concept paper on "Improving the cost-benefit trade-off of early capacity payments" (included in the August 2012 MAC meeting agenda). Verve Energy suggests that it may be more effective to deal with these issues within a single work stream to ensure consistent outcomes.

¹ Over-supply of capacity, ensuring that the RCM contains appropriate incentives which work for both over-supply and shortfall scenarios; and harmonisation of demand side and generation options.

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

Verve Energy agrees with Synergy's assessment of the proposal's impact on the Wholesale Market Objectives.

Furthermore, Verve Energy considers that, should the IMO adopt its suggestion for a more dynamic early entry capacity payment mechanism, the impact on the Wholesale Market Objectives, as outlined by Synergy, are further strengthened.

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.

Verve Energy would not require any changes to its IT or business systems, nor incur any organisation costs as a consequence of adopting the changes (either as proposed by Synergy or amended as suggested by Verve Energy).

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

Verve Energy does not need to undertake any actions to implement this Rule Change Proposal.
