

## Wholesale Electricity Market Rule Change Proposal Submission Form

### RC\_2010\_23 Consequential Outage – Relief from Capacity Refund and Unauthorised Deviation Penalties

#### Submitted by

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#### Submission

- Please provide your views on the proposal, including any objections or suggested revisions**

#### Background

The current version of the Market Rules place an obligation on Scheduled Generators to follow the Resource Plans they have committed to. When the actual Metered Schedules fall below the levels committed to in the Resource Plans (after allowing for a tolerance band and any Dispatch Instructions from System Management) the Market Participant may be liable to repay capacity credit related revenue and be subject to covering the cost of the energy shortfall at the Downward Deviation Administered Price (DDAP). DDAP is set to be a multiple of 1.1 or 1.3 of the Marginal Cost Administered Price (MCAP). The repayment of capacity credit related revenue also attracts a multiplier which, depending on the particular time of year and time of day the shortfall occurs, can be as high as six.

Currently, only Facilities that are undergoing a Commissioning Test, Reserve Capacity Testing or are complying with a Dispatch Instruction specifying a minimum MW operating level are exempt from the consequences established above associated with their failure to adhere with their Resource Plan.

## **Change Proposal**

On 3 August 2010 Alinta Sales Pty Ltd (Alinta) submitted a Rule Change proposal to the Independent Market Operator (the IMO) entitled “RC 2010 23 Consequential Outage – Relief from Capacity Refund and Unauthorised Deviation Penalties”.

Alinta proposed that Facilities that are unable to comply with their obligations due to their being on a Consequential Outage (an outage that is due to the failure of another participant’s equipment) should not be subject to potential energy and capacity related penalties. Alinta proposed that Facilities on a Consequential Outage should have their Dispatch Schedules set to be equal to their Metered Schedules.

The IMO is progressing RC 2010 23 under the Fast Track rule change process.

## **Perth Energy’s Views**

Perth Energy supports Alinta’s proposal. It is Perth Energy’s view that it would be inequitable and inefficient to apply financial penalties in situations where the Market Participant has no ability to influence the particular outcome that leads to the penalty. In the case of being unable to follow a Resource Plan due to being on a Consequential Outage the affected Market Participant clearly is in no way responsible for the fault and is unlikely to be able to act to avoid the outage, which Perth Energy holds as the rationale for having UDAP and DDAP penalties in the marketplace.

Perth Energy therefore agrees with Alinta’s proposal to amend the Market Rules so that Facilities that are on a Consequential Outage have their Dispatch Schedules set equal to their Metered Schedules.

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

Perth Energy considers that risks that cannot be controlled in any way by a Market Participant, as is the case for Consequential Outages, should not attract penalties. Without the proposed change Market Participants will continue to be faced with a risk that cannot be managed or hedged, other than allowing for it by adding a risk premium when bidding its generation units into the Short Term Energy Market.

Without adopting the proposed amendment, Perth Energy considers that the risk that Alinta has identified is likely to add to the long term cost of generation as generators will have to reflect a risk premium in their bids into the Short Term Energy Market and in bilateral contracts that they may enter into.

Perth Energy also considers that the operation of the Wholesale Energy Market will be less efficient than it otherwise would be by retaining the potential for penalties being applied to Market Participants on Consequential Outage.

Finally, Perth Energy also agrees with Alinta's assessment that the current treatment of Facilities on Consequential Outage may be harmful to competition in generation. This is particularly the case when considering the competitive tension between Market Participants with small generation portfolios as opposed to those Market Participants with larger generation portfolios. In Perth Energy's view Market Participants with larger generation portfolios would be expected to be better positioned to manage the impact of single Facility incidents with relative ease compared to smaller generation portfolio Market Participants.

For the reasons set out above, Perth Energy considers the proposal to improve the achievement of Market Objectives<sup>1</sup> (a), (b) and (d). Perth Energy does not consider that Market Objectives (c) and (e) would be impacted in any way by the proposed changes.

**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.**

There will be no impact for Perth Energy.

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

Perth Energy does not require any lead time to implement the change.

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<sup>1</sup> The objectives of the market 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;
- (d) to minimise the long-term cost of electricity supplied to customers from the South West interconnected system; and
- (e) to encourage the taking of measures to manage the amount of electricity used and when it is used.