Submission

To the

Economic Regulation Authority

Regarding

Discussion Paper:

Annual Wholesale Electricity Market Report

28 August 2009

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Executive Summary

Matter	Economic Regulation Authority of Western Australia - Discussion Paper: Annual Wholesale Electricity Market Report to the Minister for Energy (15 July 2009).
Context	The Economic Regulation Authority has released its Discussion Paper to assist those interested in making submissions on issues regarding the effectiveness of the Wholesale Electricity Market in meeting Wholesale Market Objectives. The Discussion Paper poses a series of questions to be considered by industry participants.
Scope	This submission is provided by Synergy to the Economic Regulation Authority in response to its Discussion Paper.
Key issues	Synergy considers that there are some mechanisms in the Wholesale Electricity Market that warrant review.
Recommendations	Synergy makes a number of recommendations herein. These are highlighted separately in Section 26 of this submission.

Background

The Wholesale Electricity Market Rules (**Market Rules**) require the Economic Regulation Authority (**Authority**) to provide the Minister with a report on the effectiveness of the Wholesale Electricity Market (**WEM**) in meeting the Wholesale Market Objectives. The Wholesale Market Objectives are:

- to promote the economically efficient, safe and reliable production and supply of electricity and electricity related services in the South West Interconnected System (**SWIS**);

- to encourage competition among generators and retailers in the SWIS, including by facilitating efficient entry of new competitors;

- 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;

- to minimise the long-term cost of electricity supplied to customers from the SWIS; and

- to encourage the taking of measures to manage the amount of electricity used and when it is used.

The Market Rules require the Authority to provide at least annually a report to the Minister for Energy (**Minister**) on the effectiveness of the WEM, or a more frequent report where the Authority considers that the WEM is not effectively meeting the Wholesale Market Objectives. The Minister's report is to include any recommended measures to increase the effectiveness of the WEM in meeting the Wholesale Market Objectives.

Recently, the Authority released its Discussion Paper: Annual Wholesale Electricity Market Report to the Minister for Energy (**Discussion Paper**), to assist industry participants in providing feedback on the effectiveness of the WEM. The Discussion Paper poses a series of questions to market participants on particular aspects of the WEM and the underlying industry structure more generally in Western Australia (**WA**).

The Authority has requested public submissions on the discussion paper and will then prepare its formal report to the Minister in September 2009. Synergy provides this submission to the Authority.

2 Discussion Point 1 – Wholesale Market Objectives:

The Authority invites comment on whether the Wholesale Electricity Market Objectives are appropriate and the extent to which the Wholesale Electricity Market is effective in meeting these objectives.

Synergy appreciates that the Market Rules must serve to meet a range of Government policy objectives as well as the specific commercial operations of the market itself. Synergy is concerned, however, that the inclusion of multiple objectives increases the risk of conflict between the importance of specific objectives – for example – reliability versus efficiency outcomes.

Synergy notes in reference to Discussion Point 5 regarding overnight decommitment that the market objectives may not lead one to a single conclusion. This is suggested because market objective (a) combines 'economically efficient, safe and reliable production' as if they are complimentary. In assessing a concept of decommitment an 'economically efficient' driver could lead to a different result than would come from a 'safe and reliable' driver.

It may be time to develop a single overarching objective for the market that, reflecting the true nature of a market, focuses on economic efficiency. This would see WA's market objectives closer aligned to the National Electricity Market (**NEM**) objectives, where the National Electricity Law (**NEL**) establishes the objectives of the NEM as being to promote efficient investment in, and use of, electricity services for the long term interests of consumers of electricity with respect to price, quality, reliability, safety and security[1].

Synergy notes that, although the WEM is considered to be bilateral in nature, this is not captured in the market objectives. Therefore there is uncertainty, given Discussion Point 5, whether any discussion of overnight decommitment should be based upon promoting a bilateral market or be based upon the market objectives.

[1] National Electricity Law, s.6.

3 Discussion Point 2 – Network Connection Applications:

The Authority invites comment on the extent to which the risk that a network connection application will not be offered on time impacts on investment incentives, including incentives to invest in new facilities in particular geographic locations of the network.

The current proposal by Western Power to address the queuing problem is welcomed by Synergy. In the past, delays caused by network connection applications have been a major factor in creating disincentives for investment in new facilities. The queuing policy has been the primary cause of this disincentive, though other impediments also exist that need to be addressed.

One such impediment is the application of loss factors. This impediment is one of misinformation, given loss factors can change after the arrival of a new generator. If a generator builds at a current high loss node, its very energy production will reduce the node's losses in future years as the balance between demand and supply at that node is corrected. To remove this impediment and give correct locational information to potential investment, an understanding of how the facility will impact on future loss factors is needed.

Another impediment often raised is the lack of a capacity credit sign related to high loss nodes. In this case Synergy would encourage the Authority to investigate the introduction of differing capacity crediting related to network location along similar lines to network loss factors.

4 Discussion Point 3 – Network Connection Applications:

The Authority invites comment on network connection applications. In particular:

- **to what extent would it be appropriate for Western Power to require that a sizeable bond be lodged with an application for network access;**
- **to what extent would it be appropriate for Western Power to discriminate between connection applicants (other than based on their places in the sequence of the relevant queue); and**
- **if other means of discrimination between connection applicants are appropriate, taking into consideration Western Power's queuing guide, what should be the basis for such discrimination.**

Synergy supports the idea of a bond related to the proposed network queuing policy. Synergy's only concern is that the bond should not become a barrier to entry.

Synergy is supportive of Western Power's proposals in changing the current queuing approach. Synergy has made comments to Western Power already and will continue to engage in this debate.

5 Discussion Point 4 – Capital Contributions for Shared Network Assets:

The Authority invites comment on the application of capital contributions for shared network assets charged by Western Power.

Synergy understands that the application of Western Power's capital contributions policy has been a contentious issue. Synergy does not consider it has expertise in this area, given our experience is limited to procurement tender process discussions with those directly exposed, rather than first hand experience. Nevertheless, Synergy would like to raise two points regarding how capital contributions may be considered.

The first point is that the Authority may consider that capital contributions should be directly required only when an application for system reinforcement does not comply with the current network development plan or if the application requires that plan to be advanced. Any request that aligns with the plan should, in theory, have already been costed and designed into the network tariffs.

The second point for consideration by the Authority is that responsibility for the network plan could be removed from Western Power and placed under the direction of an independent agency. Such a separation of powers would aid the plan's acceptance by removing concerns of bias or favouritism, building confidence that comes from an independent review. Synergy would suggest the Authority consider the Independent Market Operator (**IMO**) for this function.

6 Discussion Point 5 – Decommitment of Thermal Plant:

The Authority invites comment on the decommitment of thermal plant. In particular:

- **what extent is the overnight decommitment of thermal plants consistent with the Market Objectives; and**

- **given that System Management will be guided by the Dispatch Merit Order and by system reliability considerations, to what extent is System Management's approach for decommitting plant overnight appropriate, transparent and predictable.**

Regarding overnight decommitment and market objectives, this has been commented on under Discussion Point 1.

Regarding guidelines, Synergy believes the current dispatch problem relates to the Market Rules giving incorrect pricing signals, resulting in incorrect or inefficient dispatch decisions. Synergy is therefore basing its comments from the 'economically efficient' market objective position only. Also refer to comments regarding intermittent generators in Discussion Point 6.

Synergy believes that if the Market Rules were corrected to pass through the actual cost of dispatch to each generator, particularly intermittent generators, then this information would allow for reasonable dispatch behaviour from participants. Synergy proposes that a market based approach founded upon price information is superior to any arbitrary or bilaterally based decommitment approach.

Synergy is uncertain of the basis upon which a dispatch merit order would be constructed, but views it as being less effective than establishing pricing transparency and allowing generators to optimise their dispatch and supply obligation costs.

Synergy suggests that the above is best achieved if the WEM adopts an efficient balancing mechanism and a competitive dispatch approach, replacing the current Verve Energy (**Verve**) balancing and bilateral dispatch. By adopting competitive balancing and dispatch, pricing signals would develop and the question of decommitment may largely disappear.

7 Discussion Point 6 – Penetration of Intermittent Generation:

The Authority invites comment on issues surrounding the penetration of intermittent generation in the Wholesale Electricity Market. In particular, what approach is required to balance system security and avoid discrimination against any generation technology.

Synergy agrees that better transparency of the costs associated with intermittent generators, such as wind generators, is required. This will ensure that wind farm investors understand the full potential costs, both network and market, in their initial assessments, rather than incurring these costs at a later date as a result of regulatory change.

Currently, intermittent generators such as wind farms are allowed to dump their production into the market, even if this causes other generators to have to decrease their production. As Verve provides the primary balancing role it is therefore most exposed to incurring costs due to excess production by intermittent generators. At worst, this can cause base load generation to have to turn off (see Discussion Point 5, above), enduring the additional costs of plant shutdown and start-up.

Intermittent generators are not exposed to the costs associated with shutting down and restarting conventional plant, as these are absorbed by Verve. Synergy considers that the current market framework needs to be revised to include the true costs of intermittent generators. Synergy's concern is that currently, these costs are not evident to intermittent generators in the WEM but, rather, are being cross-subsidised by conventional generators. Additionally, System Management needs to have comprehensive criteria upon which to base decisions concerning load curtailment, which should be undertaken at least cost.

Furthermore, Synergy considers that the contribution of wind generation during periods of peak load is currently overstated as it is applicable to the Reserve Capacity Mechanism (**RCM**). Generally, summer peak load in the SWIS occurs when the easterly warming breeze abates, just before the westerly sea breeze commences. At the same time, wind generation subsides. This suggests that wind generation is over capacity credited compared to its actual contribution in meeting system peak, effectively reducing the reliability of the WEM. Synergy advocates a review of the capacity accreditation process for wind generators so that their contribution during peak load intervals can be correctly recognised instead of the current arbitrary capacity factor approach.

The expansion of wind generation in the SWIS absorbs transmission capacity, thereby creating additional costs for further new generation facilities. The intermittent and unpredicted operation of wind farms in the SWIS also increases the requirement for, and resulting cost of, ancillary services. To this end, Synergy would support the introduction of a centralised wind forecasting system, such as the Australian Wind Energy Forecasting System (**AWEFS**) being implemented in the NEM, to improve wind predictability.

Synergy promotes publication of the true costs of wind generation, both network and WEM related, so as to inform potential wind farm investors. This will go some way to alleviating regulatory risk arising from the current capacity accreditation process, dispatch process and network costs not reflecting the true price of wind generators. Synergy's preferred position is that the externalities created by wind generators are internalised to those generators on a causer pays basis.

Synergy would support a review of the allocation of Capacity Credits to intermittent generators. Capacity Credits are currently allocated to each intermittent generator based on the generator's average output over the preceding three years. As noted earlier, Synergy believes that the contribution of wind generation during peak load periods is significantly overstated. This has resulted in a distortion in the market as wind generators are unfairly advantaged relative to other generator technologies. This is particularly the case in regard to solar generators (photovoltaic (**PV**) or solar thermal); Synergy considers that their contribution to meeting system peak is understated. Unfortunately, Capacity Credits are assigned to both wind and solar generators using the same criteria. This provides a strong incentive for wind but a disincentive for the employment of PV and other renewable energy generation plant within the WEM. Synergy is of the view that capacity accreditation of any generation technology (renewable and non renewable) should be based on its contribution to the peak and not on the basis of an average capacity factor as is currently the case in the context of intermittent renewable technology.

8 Discussion Point 7 – Transparency of Outages:

The Authority invites comment on the adequacy of plant outage information in light of:

- **the potential benefits and costs of wider dissemination of outage information; and**
- **the IMO's analysis of outage information dissemination in relation to the proposed Rule change RC_2009_05 Confidentiality of Accepted Outages.**

The rule change proposal RC_2009_05 enables System Management to provide details of Scheduled Outages (outages accepted by System Management) to Western Power Networks. Synergy views this rule change as being beneficial to the market by improving overall efficiency in allowing Western Power Networks to more frequently plan transmission maintenance to coincide with Market Participant outages. Synergy viewed the IMO's analysis and management of the rule change process for RC_2009_05 as being satisfactory.

Synergy views that there may be some benefits to retailers and other Market Participants from the broader dissemination of outage information and the removal of the current asymmetry of information that exists for larger generators in the marketplace. However, this view was not supported either at the Market Advisory Committee (**MAC**) or by the Market Participants individually as part of the consultation process. As such, it was not reflected in the outcomes for RC_2009_05. Market Participants have the opportunity to raise this issue in the future through the rule change process if they so desire.

9 Discussion Point 8 – Ancillary Services Procurement:

The Authority invites comment on what factors may inhibit a generator from participating in the competitive procurement of ancillary services.

Synergy would make the general comment that competitive procurement of ancillary services could improve market efficiency, although, given the size and number of participants in the SWIS, the resulting costs of such competitive tendering may outweigh the benefits. Synergy therefore suggests a cautious and balanced assessment, rather than an aggressive pursuit of competitive ancillary services procurement.

Synergy supports a move towards a causer-pays system of allocating ancillary services costs, specifically costs resulting from intermittent generation operation. Currently, ancillary services costs are recovered from participants via a smeared approach rather than directly from the causer. This means that the causers of ancillary services do not have an incentive to reduce their impact on the system.

10 Discussion Point 9 – Location Signals to New Generation:

The Authority invites comment on any concerns in respect of the provisions of location signals to new generation and how these concerns may be addressed within the context of the Market Rules.

Synergy notes that the significant network augmentation required to connect wind powered generators and the large number of generators to meet Renewable Energy Target (**RET**) needs is likely to make network planning for such augmentations complex. Wind powered generators locating at the periphery of the system can also materially change the flows on the shared networks.

The transmission network in the SWIS is planned on an unconstrained basis. The amount of network augmentation required is therefore determined by the location of the connecting generator. It may be more efficient to allow some congestion to occur than to augment the network particularly in the case of multiple applications for the lower capacity factor wind powered generators. There is, however, currently no market mechanism to facilitate the management of constraints in a cost reflective manner, or therefore to allow the costs of network congestion being managed in other ways to be compared with the consequences of network congestion.

As identified in the AEMC's recently released report[2], a change in the Western Power planning standard used to provide unconstrained access for generation and a more dynamic approach to line rating would have some significant implications for the operation of the WEM's RCM and the balancing mechanism. The implications for the RCM would be that constrained generators would be potentially unable to generate at certain times. There would therefore need to be a review of how capacity credits and refunds would be allocated to these generators. In balancing, constrained generators would potentially face deviation

[2] *2nd Interim Report of the AEMC: Review of Energy Market Frameworks in the Light of Climate Change Policies,* 30 June 2009

charges when their output was constrained below their contracted quantities. The structure of the WEM deviation charges would therefore require review. These matters are within the scope of the Renewable Energy Working Group and should therefore urgently be considered by this group.

11 Discussion Point 10 – Metering:

The Authority invites comment on the key benefits and costs of installing revenue-quality meters at Verve Energy's plants in place of relying on System Management's Supervisory Control and Data Acquisition (SCADA) data.

The Authority also invites comment on the key benefits and costs of using estimated meter readings for the first round of settlement instead of waiting for all interval meters to be read by the metering data agent.

Synergy agrees that tariff quality metering for Verve is a requirement in establishing an efficient market structure, but sees this as not critical for today - rather Synergy sees this as a medium term objective. The resulting benefits of tariff quality metering are incremental and could be progressed over a reasonable period.

On the other hand, Synergy believes that the provision of relevant data to Market Participants is too slow and is high on Synergy's list of required improvements. Particularly in Synergy's case operating under the notional wholesale meter, Synergy's visibility on a range of metering issues is less than acceptable. For Synergy to avoid significant nomination errors more timely metering data is needed. To this end, Synergy has commenced discussions with the IMO to explore how estimated data could be better provided.

12 Discussion Point 11 – Competitive Balancing:

The Authority invites comment on competitive balancing. In particular, ahead of the introduction of competitive balancing, to what extent is it appropriate to:

- **require the equivalent of a Resource Plan from Verve Energy;**
- **enhance reporting in respect of outages by unit, and fuel usage changes from plan; and**
- **make any other operational changes.**

Synergy believes that better transparency concerning dispatch and balancing actions in the WEM would improve market efficiency.

Currently, any balancing decision by System Management to ensure supply-demand stability is not based upon dispatching the least cost generation plant. Instead, Verve plant is dispatched as a priority and provides the predominant balancing role. Other generation plant is used only after Verve's plant is fully dispatched.

The costs associated with having Verve as the principal balancer reduces market efficiency by disallowing the least cost generator (unless this facility is Verve itself) to increment or decrement. As more new generation plant arrives in the WEM this inefficiency will increase unless all generation facilities are allowed to competitively offer their plant to perform balancing services. As a general principle, Synergy supports a move away from Verve being the balancing agent towards a competitive balancing environment whereby a price to perform this service provides fair and reasonable compensation to the generator.

With regard to dispatch, the WEM operates differently from other energy markets. Generators are dispatched according to load obligations rather than, as in the NEM, the lowest cost facilities being dispatched first.

Electricity markets generally dispatch generation facilities from lowest offer to highest offer, ensuring the cheapest dispatch happens. This approach of passing on dispatch risk to generators ensures that generators offer their lowest price to avoid expose to a market price. The WEM, by dispatching generators according to their bilateral demand obligations, removes this risk and instead encourages generators to offer higher prices for the dispatch of energy above their bilateral obligations into the Short Term Energy Market (**STEM**). Although the Market Rules attempt to counter this by directing generators to offer at short run marginal cost (**SRMC**), without the risk of exposure to market prices the lowest price driver is weakened. As a general principle, Synergy supports a move away from bilateral dispatch towards the introduction of competitive generator dispatch.

In stating a preference for competitive balancing and dispatch, Synergy recognises that such significant changes to the market design may cause considerable cost to the IMO and to market generators in modifying their systems to accommodate competitive balancing and dispatch.

13 Discussion Point 12 – Rule Change Process:

The Authority invites comment on the Rule change process. In particular, given the potential for the more active Market Participants to be better placed to argue their position on Rule change proposals, the Authority invites comment on:

- **whether there is sufficient balance in the Market Participant classes represented on the Market Advisory Committee; and**
- **whether a better resourced Independent Market Operator could address concerns relating to the self-interested positions taken by Market Participants.**

Synergy notes that the constitution and the operating processes of the MAC are currently being considered as part of the rule change process.

Synergy would propose to the Authority that the MAC membership be composed of interested and qualified individuals from all Rule Participants who feel a need to be represented upon the MAC and who can contribute to rule change and market development. The current membership may be perceived by new arrivals as having a first come bias.

Synergy would not promote an expansion in the IMO resources to provide a balance given this will result in increased market costs and will ignore the reality that the IMO brings its own bias or priorities to any discussion.

14 Discussion Point 13 – Rule Change Process:

The Authority invites comment on:

- **the extent to which the Rule change process could be reasonably delineated to separate operational from more strategic matters; and**
- **whether a different assessment process should apply to strategic Rule changes.**

Synergy would be concerned that agreement could be hard to reach in determining what is in fact strategic. Any delineation between strategic and non-strategic is best done along the lines of contentious rather than strategic. Any proposed rule changes that appear difficult, contentious or create excessive self-interest should be handled differently. Currently the rule change process has a multifaceted approach related to how contentious a proposal is. The current approach has some merit.

15 Discussion Point 14 – Performance of the Independent Market Operator, System Management and the Economic Regulation Authority:

The Authority invites comment on the effectiveness of the Independent Market Operator, System Management and the Economic Regulation Authority.

Synergy acknowledges that the Authority has insufficient funding and resources to undertake the role it is required to perform. Synergy believes this deficiency is a significant weakness in promoting market efficiency.

Synergy also considers that no regulator or administrator function performed by the Authority and System Management can be successfully undertaken without being accountable via some agreed form of assessment, for example the use of KPIs as adopted by the IMO. Synergy would therefore promote the idea that both the Authority and System Management adopt publicly reviewable performance standards.

16 Discussion Point 15 – Network Planning Approach

The Authority invites comment on options for promoting efficiency in network planning and investment that are consistent with the Reserve Capacity Mechanism requirements.

Please refer to comments made under Discussion Points 2, 3 and 5.

17 Discussion Point 16 – Short Term Energy Market Gate Closure

The Authority invites comment on the gate closure timing in the Short Term Energy Market (STEM). In particular, given that the issue of STEM gate closure timing will be considered as a part of the proposed road map process, the Authority invites comment on:

- **leaving the STEM gate closure as it is; or**
- **moving STEM gate closure closer to the start of the trading day.**

Synergy's concern relates to the closure of the bilateral nomination process rather than simply the closure of the STEM. Both the bilateral nomination and STEM submission suffer from similar time disconnections from the actual trading interval. In particular, the bilateral nominations close in the morning of the Scheduling Day, some 49 hours before the final trading interval. During that 49 hours a market participant cannot modify its nomination.

This very early gate closure has created many problems for Synergy and Verve. For instance, any changes in the weather forecast will significantly impact upon expected trading interval demand. This spectacularly occurred on two consecutive days in February 2009 when the Bureau of Meteorology **(BOM)** forecast a hot day

but changed its forecast to mild temperatures by mid afternoon on the Scheduling Day. The opposite forecasting behaviour happened the following day. The results were that Synergy significantly over nominated the first day and significantly under nominated the second day. The irony was that Synergy had reliable BOM forecasts 19 hours before the trading day commenced, due to BOM afternoon re-forecasting, but could not change the nominations. Similarly, Verve was locked into wrong demand expectations, severely impacting their STEM nominations.

Synergy suggests that such later closures would not need to occur at shorter intervals than 4 hours before the commencement of the trading interval.

18 Discussion Point 17 – Value of the Short Term Energy Market

The Authority invites comment on the benefits provided by the Short Term Energy Market (STEM).

Synergy has previously commented that the STEM's major weakness is the lack of visibility or certainty regarding what volume could be cleared and at what price. A Market Participant places its volume into the STEM with no assurance of clearing that volume and with no ability or feedback to adjust its price. This lack of transparency makes the STEM a weaker trading mechanism than one that delivers both volume and price certainty to the Market Participants, such as a short term bilateral.

However, the STEM does have advantages for certain participants, particularly new generators needing to buy to satisfy supply obligations given commissioning delays, or generators whose loads themselves have not been commissioned. Even in these cases, however, the STEM has not proven to be the preferred mechanism given its lack of liquidity and lack of a competitive balancing market to regulate the price. Synergy's experience is that Market Participants prefer the certainty offered by bilateral arrangements to the uncertainty of the STEM.

19 Discussion Point 18 – Price Caps and Bidding Rules

The Authority invites comment on the appropriateness of the price caps and bidding rules in the Wholesale Electricity Market.

Synergy's preference would be to have a single price cap and avoid the unnecessary argument about what is, or what is not, a liquid fuel. A single price cap would aid in removing any backup fuel technology bias.

20 Discussion Point 19 – Reserve Capacity Mechanism Plant Mix, Price-setting and Timing

The Authority invites comment on the appropriateness of the Reserve Capacity Mechanism for determining the Reserve Capacity Price. In particular:

- **Is there any evidence demonstrating that overall pricing signals provided in the Wholesale Electricity Market (for capacity and energy) are encouraging an inappropriate mix of plant; and**

- **Are there alternative mechanisms, or changes to the Reserve Capacity Mechanism, that could better achieve the Market Objective of promoting the economically efficient, safe and reliable production and supply of electricity and electricity related services in the South West Interconnected System.**

Synergy does not see the RCM as being the mechanism responsible for ensuring the correct mix of generation facilities to promote efficient energy production. The RCM is designed to ensure sufficient capacity is built to match the expected 1-in-10 summer peak demand plus a defined allowance. As such, it needs to be understood that the RCM does not guarantee efficient energy supply. The guarantee to secure the right mix of base load, mid-merit and peaking generation plant still resides with retailers. Therefore retailers, not the RCM, promote the least cost mix of generation for their own purposes.

Synergy would be concerned if another mechanism was designed to expand the purpose of the RCM to encourage optimal generation mix. Such a move would create regulatory problems for retailers complying with the market's view of optimal mix based upon the SWIS and their own optimal requirements based upon their own loads.

21 Discussion Point 20 – Reserve Capacity Mechanism Plant Mix, Price-setting and Timing

The Authority invites comment on the merits of moving the Reserve Capacity Mechanism to more than 2 years in advance of the relevant Capacity Year, and the extent to which such a change could assist in resolving network access application problems.

Synergy currently procures new capacity 3 and 4 years in advance. This is the case because the planning and construction of new generation facilities is a long process, often requiring more than 3 years and, in the case of coal, more than 5 years.

If Synergy limited its procurement activities to the same time scope as the RCM, procurement opportunities would be limited to facilities already under construction.

Given that Synergy must enter supply deals with new facilities in advance of the 2 year RCM timeframe, this creates uncertainty over capacity accreditation and capacity price. Synergy would therefore encourage a longer than 2 year timeframe for the RCM process.

22 Discussion Point 21 – Reserve Capacity Refunds

The Authority invites comment on the extent to which changes to the Reserve Capacity refund mechanism can better promote the Market Objectives.

Synergy has always been concerned that the refund mechanism discriminates against base load capacity credit providers in preference to peaking capacity credit providers. This happens because the failure of a base load facility is always visible given such facilities are either operational or off for maintenance. With peaking facilities, their infrequent use makes forced outages less visible.

Refunds are equally applied for each facility technology type, suggesting that incentives to avoid forced outages are the same. Base load facilities have significant incentives related to providing energy and avoiding market price exposure, whereas peaking facilities do not have such an exposure.

There is the potential here for the Authority to review whether differing refunds could be applied to different technologies.

23 Discussion Point 22 – Reserve Capacity Refunds

The Authority invites comment on whether the Reserve Capacity refund mechanism should be included for consideration as part of the road map proposed in the Authority's 2008 review of the market.

Synergy supports a review of the RCM refunds.

24 Discussion Point 23 – Incentives for Demand Side Management

The Authority invites comment on the extent to which the regulatory arrangements surrounding the incentives for parties to engage in Demand Side Management are appropriate.

In capacity terms, apart from the exercise of running the Supplementary Reserve Capacity process, Synergy believes the current approach for securing and operating Demand Side Management **(DSM)** acts as a disincentive. Synergy believes the place for DSM capacity is during the summer peak months as a replacement for generation that would otherwise be too expensive to build given it is required to operate for just a few hours. DSM in this situation has market-wide benefits because it provides a cheaper alternative than building generators.

The current market requirement demands that DSM must be available all year and not just during the summer peak months. Synergy considers that full year capacity is better served from generation capacity rather than DSM. This is because DSM is limited to only a few hours of performance whereas generation is considerably more flexible.

25 Discussion Point 24 – Industry Structure and Regulatory Settings

The Authority invites comment in respect of the impact of structural issues on the effectiveness of the market and achievement of the Market Objectives.

Synergy has no specific comments on this point.

26 Recommendations

In summary, Synergy would recommend that the Minister advise:

(i) An urgent need for the market to correctly reflect the cost of intermittent generation, such that investors understand these costs.

(ii) A move towards competitive balancing and dispatch. The market would be more efficient if the most economical plant was dispatched first and the onus would then be on generators to be as cost-effective as possible.

(iii) A review of the costs to the market of intermittent generators. Additionally, System Management needs to have comprehensive criteria upon which to base decisions concerning load curtailment.

(iv) A review of the capacity accreditation process for wind generators and publication of costs. The introduction of a centralised wind forecasting system may be useful.

(v) A move towards a causer-pays system of allocating ancillary services costs.

(vi) A review of the Reserve Capacity Mechanism so as to ensure correct signals concerning build of the system.

(vii) A review of the allocation of Capacity Credits to intermittent generators so that the full contribution by solar and other renewable generation plant is acknowledged.

(viii) Later gate closure for bilateral submissions, STEM and Resource Plans.

(ix) Limitation to the summer peak period for the application of DSM capacity crediting.

(x) Although this comment has not been made above, Synergy would desire a change in the data reported by the IMO to the market. Currently, the IMO reports as it is required under the Market Rules, keeping all other information secure. Synergy believes that all market data and information should be made available to all market participants unless that data is explicitly confidential.

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