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## Wholesale Electricity Market Submission to Procedure Change Proposal

### PC\_2013\_06 Changes to the Market Procedure for Certification of Reserve Capacity

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#### Submitted by

<b>Name:</b>	Jacinda Papps
<b>Phone:</b>	(08) 9424 1917
<b>Fax:</b>	(08) 9424 1818
<b>Email:</b>	<a href="mailto:Jacinda.papps@synergy.net.au">Jacinda.papps@synergy.net.au</a>
<b>Organisation:</b>	Synergy
<b>Address:</b>	GPO Box F366, Perth WA 6841
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#### Submission

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#### 1. Please provide your views on the Procedure Change Proposal, including any objections or suggested revisions.

Synergy<sup>1</sup>, notes that the Independent Market Operator (IMO) is proposing to amend the Market Procedure for Certification of Reserve Capacity to reflect amendments to the Wholesale Electricity Market (WEM) Rules (Market Rules) arising from:

- RC\_2012\_20: Consideration of Network Constraints for Certified Reserve Capacity;
- RC\_2013\_09: Incentives to Improve Availability of Scheduled Generators; and
- RC\_2013\_10: Harmonisation of Supply-Side and Demand-Side Capacity Resources.

#### Summary of views on the Rule Change Proposals relevant to this Procedure Change Proposal

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<sup>1</sup> Effective from 1 January 2014, the Electricity Generation Corporation trading as Verve Energy changed its name to Electricity Generation and Retail Corporation trading as Synergy. This name change was instituted to reflect the merger of Verve Energy and the Electricity Retail Corporation trading as Synergy as detailed in the Electricity Corporations Amendment Bill 2013 (WA) (passed by the parliament of Western Australia on 12 December 2013 and received Royal Assent on 18 December 2013).

In order to provide context around Synergy's comments on this Procedure Change Proposal the following sections provide a summary of the views on the relevant Rule Change Proposals, as previously presented by the pre-merger corporations and the post-merger corporation (where applicable).

Where this submission refers to "Synergy" it refers to the post-merger corporation. For clarity "Electricity Retail Corporation" will be used to refer to the pre-merger corporation (also known as Synergy).

*RC 2012 20: Consideration of Network Constraints for Certified Reserve Capacity*

The Electricity Retail Corporation supported the proposed rule change as a satisfactory and necessary response to circumstances where the IMO is required, by the application of the rules as they stand, to assign a quantum of Certified Reserve Capacity across Facilities for a shared connection point that exceeds the DSOC of that connection point.

*RC 2013 09: Incentives to Improve Availability of Scheduled Generators*

Verve Energy noted in its first submission that it considered that the Rule Change Proposal:

- was an over-reaction to a current set of circumstances in the WEM which will lead to additional, unnecessary costs for Market Generators (which will be ultimately passed onto end users);
- did not take into account the natural, and very strong, incentives to be available in a predominantly bilateral contract market;
- did not recognise that availability of a generation facility varies greatly depending on the type of fuel, the design of the facility, how the facility is operated/dispatched, and the stage of its lifecycle that the facility is at; and
- when assessed in its entirety, was heavy handed, introduced onerous obligations, was unnecessarily invasive and simply not needed.

Verve Energy considered that the IMO could achieve the same outcome (i.e. appropriate incentives for availability) by implementing a subset of, and/or modification to, the measures outlined in the Rule Change Proposal. While commending the IMO for its response to certain issues raised in the first submission period, Synergy reiterated the above over-arching view on the proposal during the second submission period.

*RC 2013 10: Harmonisation of Supply-Side and Demand-Side Capacity Resources.*

The Electricity Retail Corporation noted in its first submission that it considered that:

- a better outcome than seeking to harmonise would be achieved by recognising that DSM is a limited product and developing alternative compensation measures to reflect that;

- an innovative alternative approach could be to consider a second capacity product or to treat DSM as a type of ancillary service; and
- the business case for telemetry at the Associated Load level had not been adequately made.

Synergy, in its submission during the second submission period, reiterated its views that the business case for telemetry at the Associated Load level had still not been adequately made.

Further, Synergy noted that while it supported the general principle behind the IMO's proposal to relax the fuel requirements, it was concerned that the proposed Amending Rules and proposed amendments to the Market Procedure, when read together introduce regulatory risk and uncertainty as to how the IMO will apply its discretion in assigning Certified Reserve Capacity. Further detail on this issue will be presented in the section below.

### **Synergy's approach to this submission**

While Synergy is still of the view that the:

- proposals outlined in RC\_2013\_09 are not necessary in their entirety, and the IMO could achieve the same outcome by implementing a subset of, and/or modification to, the measures outlined in the Rule Change Proposal;
- a better outcome than seeking to harmonise demand and supply side resources, as proposed in RC\_2013\_10, could be achieved by recognising that DSM is a limited product and developing alternative compensation measures to reflect that; and
- the business case for telemetry at the Associated Load level, as outlined in RC\_2013\_10, has not yet been adequately made,

Synergy has not repeated those views in this submission. Synergy has instead focussed on reviewing the operational processes outlined in this Procedure Change Proposal. Noting this, nothing in this submission should be interpreted as a change to Synergy's views on either of the Rule Change Proposals.

### **Synergy's views on the Procedure Change Proposal**

#### *Fuel requirements - steps 4.3.1 and 4.3.2*

To receive Certified Reserve Capacity for a Scheduled Generator under the current Wholesale Electricity Market Rules and Market Procedures, a Market Participant must demonstrate that the Facility's fuel storage, supply and transport arrangements are sufficient to allow 14 hours (Peak Trading Intervals on Business Days) of continuous operation.

Synergy supports the general principle behind the IMO's proposal to relax the requirement for Facilities to have "firm fuel" supply contracts in place on the basis of the IMO's assessment that there are sufficient commercial incentives in place to ensure generators secure sufficient fuel supply. Further, Synergy understands that it isn't practical to apply a single fuel requirement across all Facilities (a one size fits all approach), nor is it practical to

draft rules and procedures to outline fuel requirements for all fuel types, technologies and plant operational characteristics<sup>2</sup>. As such, this proposal needs to be able to strike the correct balance between providing regulatory certainty for participants, whilst also providing an appropriate amount of flexibility.

While supportive of the general principle behind the proposal, Synergy is concerned that the proposed Amending Rules and proposed amendments to the Market Procedure, when read together, introduce regulatory risk and uncertainty as to how the IMO will apply its discretion in assigning Certified Reserve Capacity.

Specifically Synergy is concerned that the broad drafting of the proposed Amending Rules and proposed amendments to the Market Procedure could mean that Facilities with certain operational characteristics may be required to demonstrate fuel availability far in excess of what the current rules require i.e. 24/7 operation, 365 days of the year.

Further, under the proposed amendments a Market Participant has no certainty as to what it needs to provide the IMO within its certification application, and there is a risk to participants that the IMO could apply different requirements to different participants between Capacity Years.

At the request of Market Participants, the IMO held an IMO Procedures Working Group meeting on 6 February 2014 to discuss the proposed amendments to the Market Procedure: Certification for Reserve Capacity, among other things. This working group meeting was followed up with an additional meeting with the IMO and a number of interested stakeholders. At these meetings the IMO clarified that the intent of proposed changes was to be less prescriptive, to make the requirements more flexible (and thus hopefully more efficient) and to follow the general principle that a Facility needs to have appropriate fuel supplies to be available when required.

It was agreed that this intent should be formally documented (for future reference and guidance) in the relevant Market Procedure. Further, the IMO agreed to formally document that it would not require evidence of firm and non-firm fuel supplies at a more arduous level than is currently required (i.e. the 14 hour fuel requirement for primary fuels and the 12 hour requirement for alternative fuels).

Synergy is supportive of this approach as it provides more certainty for participants, whilst still retaining the flexibility that this proposal is seeking to achieve.

#### Minor and typographical suggestions

Synergy offers the following minor and typographical suggestions for the IMO to consider:

- Step 3.5.7(d) provides the IMO with the ability to consult with either System Management or any person the IMO considers suitably qualified to provide an opinion. For clarity and consistency of drafting Synergy considers that this sub-step should refer to clause 4.11.1B(c).
- Steps 4.1.1, 4.3.4 and 4.3.5:

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<sup>2</sup> For example base load, mid-merit or peaking generation.

- Step 4.1.1 notes that if more than one fuel is nominated for a Facility the maximum sent out capacity will be determined for each fuel independently and for the purposes of the Procedure the IMO will use the minimum of the quantities determined for each fuel (new).
- Step 4.3.4 notes that if more than one fuel is nominated for a Facility the IMO will determine whether it reasonably expects that the Facility is likely to be available for each fuel at the capacity determined in step 4.1.1.
- Step 4.3.5 outlines that if the IMO reasonably expects that the Facility is likely to be able to be available on each fuel at the level of capacity outlined in step 4.1.1 then that Facility will be considered a dual fuel Facility for the purpose of Certified Reserve Capacity.

Synergy notes that step 4.1.1 determines the minimum quantity and then step 4.3.4 determines whether the IMO reasonably expects the quantity to be available. Synergy is not convinced that both steps are required.

- Step 4.1.3(c): For consistency of drafting with table 1 of the procedure should “engineering contractor” be replaced with “independent engineering firm”?
- Step 4.2.1 and its interaction with (new) section 3.7: should this step include a link to the new process outlined in section 3.7?
- 4.5.1(b), (e) and (f): Sub-step (b) uses the term “a lesser quantity of capacity”, sub-steps (e) and (f) use the term “a lower level of capacity”. The drafting in these sub-steps should be consistent.
- Step 5.2.1 and its interaction with (new) section 3.7: should this step include a link to the new process outlined in section 3.7?