



Agenda Item 8b: Supplementary Reserve Capacity Update

1. BACKGROUND

The Supplementary Reserve Capacity (SRC) Working Group was convened under the auspices of the Market Advisory Committee (MAC) to consider the following issues with the SRC provisions of the Market Rules:

- Appropriate funding for the additional costs associated with the use of the SRC mechanism and distribution of these costs amongst Market Participants;
- Appropriateness of the causation built into the mechanism (including the issue of the SRC funding in the event of Capacity Credit cancellation);
- Definition of Eligible Services;
- Appropriate cost structure for an SRC tender and how this relates to refunds;
- Timelines of the initial call for SRC; and
- Implications if forecasted load growth is higher than anticipated.

As an outcome of the deliberations of this Working Group the following Rule Change Proposals were developed:

- Funding of Supplementary Reserve Capacity (RC_2008_27) – an interim solution to the issue of appropriate funding for the additional costs associated with the use of the SRC mechanism and distribution of these costs amongst Market Participants;
- Eligible Services for Supplementary Reserve Capacity (RC_2008_28); and
- Funding of SRC in the event of Capacity Credit cancellation (RC_2008_34).

Following public consultation both RC_2008_27 and RC_2008_28 were approved by the IMO. However, during the public consultation process for RC_2008_34 there was significant debate over the “causer pays” versus “user pays” principles. In particular how to determine who actually is the causer of the SRC if the “causer pays” proposal is adopted. As a consequence of this significant debate around the principle to be adopted the IMO decided to reject the Rule Change Proposal. Further detail surrounding the IMO’s decision is available in the Final Rule Change Report available on the IMO’s webpage: http://www.imowa.com.au/RC_2008_34

Following the IMO’s decision to rejection RC_2008_34, Alinta noted at the 14 July 2009 MAC meeting that the market currently has a situation where if a Facility decides to reduce its

Capacity Credits then customers are left exposed with no ability to manage the risk. In particular, Alinta noted that this is not a desirable scenario and that the funding of Supplementary Capacity Contracts still needs to be resolved.

A meeting was held between the IMO, Alinta and Perth Energy to discuss the funding the SRC following the IMO's rejection of RC_2008_34. An update of this meeting was provided to the MAC at the 9 September 2009 meeting. As an outcome of this meeting all parties involved agreed that the funding of SRC provisions would not need to be revisited immediately as this was not high priority for the time being. The MAC agreed with this assessment and with the IMO's commitment to revisit the issue again in six months time.

2. FURTHER ASSESSMENT OF THE ISSUE

Consistent with this commitment, the IMO has undertaken a further assessment of whether the issue of the funding of SRC is required. In particular, the IMO has assessed the potential requirement for calling SRC in the short to medium term and determined that it is currently low, as indicated by the healthy capacity cushion (the difference between Available Capacity and the Maximum Load). Further details of the current capacity cushion are available in the IMO's latest copy of LoadWatch available on the IMO webpage: <http://www.imowa.com.au/loadwatch>.

The IMO also notes the forecast capacity required to cover peak demand as presented in the 2009 Statement of Opportunities. In particular, the statement of opportunities notes that only 145 MW of new capacity beyond existing and committed plant would not be required for 2011/12. This suggests that there is little risk to the market currently associated with insufficient capacity having been procured.

Based on the current market position with regard to the level of available capacity, the IMO does not consider that the issue of the funding of SRC requires revisiting at this point in time. The IMO commits to maintaining the issue on its issues register and re-evaluating the situation again in six months time.

3. RECOMMENDATIONS

The IMO recommends that the MAC:

- Agree that the issue of the funding of SRC does not require revisiting at this point in time;
- Agree that the IMO maintain the issue of the funding of SRC on its issues log and that the IMO raises this again in September 2010.