
Wholesale Electricity Market Rule Change Proposal Submission Form

RC_2010_08 Removal of DDAP Uplift When Less Than Facility Minimum Generation

Submitted by

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Date submitted:	31 May 2010

Submission

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

The Proposal

Griffin Energy has put forward a Rule Change Proposal (RC_2010_08) that seeks to amend the application of the Downward Deviation Adjusted Price (DDAP). The Griffin Energy proposal notes that DDAP currently applies uniformly to all instances where a Scheduled Generator deviates downwards from its Resource Plan in real-time.

The proposal identifies that Facility registration data in the Wholesale Electricity Market System (WEMS) acknowledges limitations of Facilities, such as the Minimum Stable Generation of a Facility. Below the defined Minimum Stable Generation, a Facility cannot reliably produce output to a pre-determined schedule.

Griffin Energy's Rule Change Proposal also outlines that a Facility will only be operating below its registered Minimum Stable Generation under a Resource Plan when ramping up to a level above the minimum, ramping down to zero; or when under a Forced Outage affecting its entire Capacity. Griffin Energy holds that imposing DDAP in instances where a Facility is ramping up (or down) according to a Resource Plan, in the intervals when the Resource Plan is less than the Facility's registered Minimum Stable Generation, imposes an additional cost on the Scheduled Generator above the substantial MCAP price levied on the difference between the Resource Plan and the actual generation. In other words, DDAP is an attempt to incentivise an outcome which

the generator is unlikely to be able to control. Further, applying DDAP to a Facility that has experienced a complete Forced Outage imposes an additional cost on the Scheduled Generator above the MCAP price as well as the cost of Reserve Capacity Refunds. Griffin Energy notes that Reserve Capacity Refunds are already substantial and provide the specific market incentives necessary to maintain available Capacity. Griffin Energy notes that in these instances the DDAP penalty is superfluous.

Perth Energy's View

Perth Energy endorses this Market Rule Change Proposal to remove DDAP penalties when a Generator deviates from its Resource Plan, in intervals below its Facility Minimum Stable Generation.

We also identify the context in which this Rule Change Proposal is being progressed. In light of the current market reforms being contemplated by the industry, there has been much discussion on the appropriateness of pricing mechanisms in the market, especially how these relate to the commitment of resources on a day-ahead basis as opposed to real time commitment decisions. We identify the need to clarify the function of DDAP in this marketplace. We view that the incentive to provide Capacity into the marketplace, in support of the reliability objectives within the overall Market Objectives (objective a), are already well achieved through the Reserve Capacity Refund Mechanism. We therefore see that the likely and sole usage of DDAP is to ensure that Market Generators adhere to their Resource Plans. This being the case we can only assume that the application of DDAP is as an efficiency measure that has been incorporated into the market design to reduce the potential balancing requirements of the market. Given that the market dispatch models are likely to be redesigned as part of the market reforms we believe that the broader relationship between balancing and efficient unit commitment should be dealt with in the current reform process.

We note that RC_2010_08 stops short of addressing these broader issues outlined above. It specifically addresses the issue of a Facility's physical limitations; and the rationale of applying market pricing mechanisms aimed at incentivising commitment decisions, where such limitations preclude direct control. If the market recognises that generation Facilities have limitations below their Minimum Stable Generation levels, then it should adopt pricing mechanisms that are consistent with this. This Rule Change Proposal should therefore be progressed on this basis.

The suggested amendments to clause 6.17.4 include introduction of the concept of the Facility Minimum Generation capacity within the clause. Facility Minimum Stable Generation limits are set in Standing Data (in WEMS) by Market Participants. Perth Energy believes that if the Market Rules affecting pricing are to be based on these values, then some rigour should be applied to the setting of these values. Perth Energy suggests that the minimum level of rigour would be achieved through the development of a simple Market Procedure for approving Facility Minimum Stable Generation limits in Standing Data. This may require the Market Generators to engage a credible third party to establish the likely Minimum Stable Generation thresholds of individual Facilities. Perth Energy does not believe that such a task would be onerous on Market Generators.

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

Perth Energy considers the change would better facilitate the achievement of all of the Market Objectives¹ and in particular Market Objectives (a), (c) and (d).

With regard to Market Objective (a), we note that while RC_2010_08 does not directly affect reliability, it may have efficiency benefits to the market in that Market Generators are not required to price in DDAP penalties in circumstances where they are unlikely to be able to control deviations (i.e. there are no trade-offs in reliability or decreased balancing costs).

With regard to Market Objective (c) we identify that RC_2010_08 will reduce potential discrimination based on technology types. Some generation Facilities, such as our own Kwinana Swift Power Station, bring added benefits to the marketplace by virtue of their flexible operating capabilities (including stable operation at low minimum generation limits) and all generation Facilities display natural variation between operational stability at low generation levels. We view that the Reserve Capacity Refund Mechanism should ensure that less reliable Facilities are (de)valued appropriately. Adding a DDAP penalty (which is not related to reliability) below Minimum Stable Generation (which will not achieve efficiency gains) can be seen as discrimination as it affects some Facilities more than others.

We view that RC_2010_08 should remove an inefficient cost from the market which should lead to lower wholesale prices. This enhances the achievement of Market Objective (d).

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.

It would be envisaged that Perth Energy would be required to engage a third party to verify the facility Minimum Stable Generation limits of our new Kwinana Swift Power Station. This task/cost would be small given existing OEM data provided for standard gas turbine technology.

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

If third party verification of Minimum Stable Generation data is required, this could be expected to be obtained within 4-6 weeks.

¹ 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.