

29 January 2016

Dr Ray Challen  
Chair of the Steering Committee  
Electricity Market Review (Phase 2)  
Public Utilities Office  
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Submission by email: [electricitymarketreview@finance.wa.gov.au](mailto:electricitymarketreview@finance.wa.gov.au)

Dear Ray,

#### **Position Paper - Reserve Capacity Mechanism (RCM)**

NewGen Neerabup Partnership welcomes the opportunity to respond to the Electricity Market Review Steering Committee (Committee) on the Reserve Capacity Mechanism Position Paper (Paper).

NewGen Neerabup Partnership (NNP) is a joint venture partnership between ERM Power (50%) and Infrastructure Capital Group (50%). NNP is the owner of Neerabup Power Station which is a 330MW low emission gas-fired peaking power station located in Neerabup. This peaking power station supplies electricity to one major counterparty and participates in the Western Australian Wholesale Electricity Market (WEM).

NNP is of the view that the RCM is an integral part of the WEM and any changes to the structure of the WEM should be made through an extensive consultation process. The changes proposed for the RCM by the Committee is essentially segregated into two timeframes, a near term transitional period and in the medium term, the introduction of a capacity auction.

#### ***Transition Phase***

NNP is supportive of the changes proposed for the transitional phase which includes the introduction of a steeper slope of -5 for the price curve, implementation of previously developed and proposed rule changes around DSM harmonisation, dynamic refunds, refunds recycling and the proposals for changing the criteria around generator availability. NNP however is puzzled as to why the entire rule change proposal previously developed by the IMO around DSM Harmonisation is not being implemented. For example the position paper specifically states that in the DSM Harmonisation proposal, there was a proposal to relax the requirement for 14 hours of fuel for continuous operation which this position paper is not proposing to implement.

The package of changes in the DSM Harmonisation proposal developed by the IMO sought to harmonise DSM with physical generation and vice versa so it only makes sense that the entire proposal is implemented as a package and not only specific desired components. NNP does not understand the justification for not adopting Rule Change proposals in their entirety. This then

raises the question as to whether the Rule Change proposals for dynamic refunds, refunds recycling and generator availability are all going to be adopted as per the IMO developed proposals or is the Committee going to only specifically adopt certain aspects of each Rule Change proposal.

While NNP is supportive of the proposals for the transitional phase, it seeks clarity as to whether all the Rule Change proposals previously developed by the IMO will be implemented in its entirety as proposed by the IMO. Given that Market Participants had previously been consulted on these Rule Changes, it would be NNP's preference that the Rule Change proposals be adopted in their entirety rather than only specific elements.

### ***Capacity Auction***

The high level principles shared by the Committee around the capacity auction seem logical as principles for developing a capacity auction. However, NNP does not believe that sufficient detail has been provided to do any meaningful analysis on how the capacity auction may impact on the market and in particular the environment that the auction may be conducted in. For example the Committee in the Paper acknowledges that it has provided the principles without taking into consideration other potential changes that might occur in the market. In particular, the changes around how the constrained grid is going to operate and the interaction this has with the capacity market are particularly important concepts but for which there is no information provided.

NNP understands that the detailed work around the capacity auction will be carried out during 2016. As there are proposed to be significant changes made to the energy market as well as the structural changes around moving to a constrained grid environment, NNP expects that there will be extensive consultation with Market Participants in the development of the capacity auction in this changed market environment. NNP looks forward to receiving further detail around the development of the RCM and participating in future consultations.

If you have any queries in relation to this submission, please don't hesitate to contact me on 08 6318 6416.

Yours Sincerely

Wendy Ng  
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NewGen Neerabup Partnership