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Reliability Priority Changes – Consultation Paper: Design of the capacity mechanism

Jacana Energy welcomes the opportunity to comment on the consultation paper on the design of the capacity mechanism in the Northern Territory Electricity Market (NTEM).

In its response to all market reform proposals, Jacana Energy considers that the reforms should achieve the following objectives:

1. a more efficient electricity market;
2. greater transparency of cost allocation; and
3. a level playing field for new entrants.

With these objectives in mind, Jacana Energy is supportive of the transition to a customer-focused reliability standard and a simplified capacity market and provides the following comments for consideration by the Design Development Team.

1. Reliability standard and assessment framework

Jacana Energy accepts that a customer-focused reliability standard in the form of loss of load hours (LOLH) is a feasible approach for the NTEM, although suggests that the assumptions around the continuance of relatively flat demand profile should be tested, given the increased penetration of both behind-the-meter solar systems materially shifting this profile in a relatively short timeframe.

Jacana Energy also accepts that the most practical solution is to make the System Controller the Reliability Manager, with the Reliability Standard set by government. Consideration needs to be given to the impacts of the proposed role changes on System Control, given the implementation of all market reform streams (capacity, essential system services, settlement and dispatch) will result in a fundamental change in responsibility for the System Controller. Consequently Government needs to ensure that institutional arrangements governing the functions of System Control ensure that sufficient resources and skill sets can be procured to support this transition.

Jacana Energy would also prefer that there is a requirement for government to consult on the methodology and outcomes of modelling the reliability standard to ensure that the impacts of the new approach across the energy supply chain are thoroughly understood prior to implementation. In addition, Jacana Energy would support a methodology review process every three years and the introduction of a mechanism whereby proponents can request changes to the methodology for consideration by Government.

The timing and implications of the introduction of the reliability standard also needs consideration in the context of current electricity market conditions. In theory, a customer-focused reliability standard should identify that there is additional capacity in the NTEM, driven by the increase in both small and large scale renewables penetration. Government will need to consider whether the intent of the introduction of the reliability standard should be to reduce excess capacity in the market or whether this issue should be addressed prior to its introduction.

Jacana Energy believes that geographical characteristics need to be considered as part of the reliability standard design, due to the relationship between generator location and grid optimisation, especially in the DKIS system where known constraint issues on the 132kV line exist. In this regard,

Jacana Energy believes power system modelling consisting of computer rendition of the DKIS grid could provide valuable insight of the DKIS characteristics and inform or quantify the value of a geographically valued reliability standard.

2. Approaches to achieving the reliability standard

Jacana Energy is supportive of the proposed approach to manage reliability with a centrally administered reliability standard, enacted through a retailer obligation to procure sufficient capacity to meet the standard. This provides retailers with sufficient flexibility to procure capacity in way that best fits customer demand in the most efficient manner.

Further consideration needs to be given to the application of a renewable energy target associated with a capacity obligation. While Jacana Energy is supportive of a mechanism to facilitate the integration of renewable energy into NT electricity grids, the benefits of procuring renewable energy may not necessarily relate to system reliability. In addition the way in which capacity is proposed to be accredited will impact the actual volume of renewables able to be procured through a capacity mechanism in a cost-effective manner (where the mandating of renewable energy procured through the capacity obligation could result in an oversupply of energy).

Without understanding what the system-wide forecast of required accredited capacity is likely to be and how this is impacted by other market reforms such as essential services, it is difficult to predict the impacts of mandating renewable energy targets as part of a capacity obligation at this time.

3. Detailed design elements of the reliability framework

One of the limitations associated with a capacity market is exposure to variances in system-wide demand forecasts. There is an inherent risk that capacity will be over or under-procured if demand forecasts are widely varying from actuals, which can have significant cost impacts. In the Western Australian market, an under-estimation of the impact of behind-the-meter solar resulted in significant volumes of excess capacity remaining in the market for some time, which drove up electricity prices. To address this risk, Jacana Energy recommends that:

- there is sufficient flexibility in the market design for the System Controller and market participants to respond to variances between forecast and actual demand in a timely manner;
- the methodology for the capacity forecast be published and subject to public consultation and regular review periods by a third party such as the Utilities Commission;
- there is a requirement on the System Controller to take into account demand forecasts prepared by retailers, who possess the most current and detailed understanding of forecast changes in customer loads; and
- there is a mechanism for retailers to dispute or request an independent review of the capacity obligation, particularly while the capacity market matures.

Jacana Energy is supportive of a benchmarked capacity price to be used for contract negotiations and welcomes further detail on the calculations to be applied to determine the benchmark price.

With regards to the accreditation value for intermittent generators decreasing over time, Jacana Energy considers that this risk can be most effectively managed through bilateral contract negotiations and the pricing arrangements agreed between the retailer and generator. As such, Jacana Energy does not believe that additional mechanisms to preserve capacity value need to be introduced.

The introduction of a capacity mechanism also has the potential to increase the value of demand-side activities such as load control and curtailment, in order to assist retailers in responding to both a short or long term capacity shortfall. There is also an opportunity for demand response to mitigate demand forecasting inaccuracies that may occur as part of the capacity forecast process. Consequently, Jacana Energy recommends that further work should be undertaken to specify how demand response might be treated as part of the assessment of a retailer's capacity obligation and

how retailers can be incentivised through their obligation to consider demand response as part of their wholesale portfolio.

4. Implementation and transition

Jacana Energy is broadly supportive of the proposed transition timeframes and the inclusion of a virtual mechanism in the first three years.

It is also important to acknowledge that the transition to a wholesale market will result in separate capacity, energy and essential services charges that cannot be passed through to the majority of customers in a cost-reflective manner at this time. While Jacana Energy supports the intent of the market reforms and remains optimistic about the potential for the reforms to deliver efficiencies, without retail tariff reform and consideration of community service obligation impacts, there is the potential for unanticipated consequences.

Thank you for the opportunity to comment on the draft position paper. Please don't hesitate to contact Jacana Energy should you have any further queries.

Yours Sincerely

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