

Friday, 12 March 2021

Design Development Team
Northern Territory Electricity Market Priority Reform Program
Department of Treasury and Finance
Darwin NT 0800

By email to: electricityreform@nt.gov.au

Dear Design Development Team,

Subject: Submissions to Consultation Paper: Design of the Capacity Mechanism

Rimfire Energy (“Rimfire”) welcomes the opportunity to provide its submission to the Design Development Team regarding the *Consultation Paper: Design of the Capacity Mechanism*.

Key Comments

Wholesale Market Linkage to Retail Market

As detailed in the Consultation Summary – Capacity mechanism SWG workshop 11 February 2021.pdf:

SWG comment: Stakeholders spoke in favour of retail tariff reform (and improved price signals) to ensure the realisation of the benefits of the capacity mechanism. A stakeholder commented that as the market matures, there is inherent commercial risk associated with leaving existing retail tariff structures and arrangements in place.

DDT response: The focus of the Northern Territory Electricity Market (NTEM) Priority Reform Program is to undertake high priority reforms in the wholesale electricity market.

Rimfire wishes to emphasise the need for concurrent and coordinated reform at both wholesale and retail markets is fundamental to the realisation of the intended benefits of electricity market reform efforts.

Pass-through Costs

Rimfire considers that there is an overarching requirement that needs to be considered when designing any market changes, including a capacity mechanism, and that is the necessary retail tariff reform to ensure pass-through of costs where appropriate.

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For a capacity mechanism to be effective the price signals that are created from the capacity mechanism, need to be shown to the retail customer so that they can respond to the price signals. Where price signals are obscured through regulated tariffs for small business and residential customers, there is a requirement for retail tariff reform and appropriate adjustment to CSO arrangements that need to be undertaken in parallel with such wholesale market reform.

Keep Administrative Cost as Low as possible

The second most important point is that administrative costs need to always be kept as low as possible. When implementing market changes such as the capacity mechanism, the costs and benefits need to clearly and transparently displayed and considered.

Rimfire supports a capacity mechanism and market design that:

- Supports the user / causer pays principle.
- Provides certainty for future cost structures.
- Allows for an alignment of periods and risks between market participants and customer contracts.
- Expedites market changes to achieve the benefits for the NT.

Comments on Consultation Paper Questions:

Q1. What other matters need to be considered in determining who should undertake the Reliability Manager function for the DKIS?

- Adequate ringfencing of the reliability manager from the network business or alternatively establishing an independent reliability manager function that reports to an independent body.

Q2. Are the proposed arrangements for acquiring capacity an appropriate balance between cost to administer, certainty and flexibility for retailers in choosing how to procure capacity?

- Rimfire supports arrangements that ensure fair access for all retailers regardless of market share. The arrangements need to prevent abuse of market power by incumbent and accordingly dominant market participants ensuring a fair deal during negotiations with smaller retailers and capacity providers.

Q4. What issues and constraints need to be considered in adjusting contracts in response to capacity obligation resets in earlier years (Years 1 to 3), noting the rolling nature of the capacity mechanism should mean these are relatively minor?

- The financial impact to retailers and their ability to pass costs through to customers remain important. Especially with regard to regulated customers / CSO adjustments that maybe required.

Q7. How important is certainty in the level of capacity accreditation granted to intermittent plant, noting generators have access to capacity and energy streams of income?

- From a market design perspective, capacity accreditation needs to be applied in a consistent manner to ensure certainty for new players.
- In a competitive market, the capacity payments may be the difference between being sustainable and not being financially viable.
- Consistent accreditation requirements may encourage intermittent players to incorporate effective storage and ramp rate management capability which will enhance the grid stability.

Q8. What indicators provide the effective signals to prospective entrants about the benefits of connecting to the network including in areas where access is likely to be constrained?

- In a market situation, price signals are generally the most effective mechanism provided they can be seen by end use customers. A balance needs to be struck between protecting early entrants and enabling full competition. Grandfathering of Rules can effectively inhibit new competition and the benefits of improved efficiency, new technology, better design, and creative solutions to problems.
- Caution needs to be exercised not to duplicate network price signals which are passed through to retailers.

Q9. What approach – a variable accreditation approach or an approach that preserves the accreditation of incumbents or early movers – is likely to result in long term efficient outcomes and best serve the interests of consumers? Why would that approach best achieve those outcomes?

- While Rimfire supports variable accreditation for its ability to facilitate equal access to future competition, we have no comment on the best type of variable competition at this stage.
- Rimfire would like to mention that it considers that most constraint issues are due to the regulated network (i.e. economic regulation from AER), although alternatives may exist for private investment and /or private contractors to solve network constraints.
- As a guiding principle, any process that hinders new generation connections to the network is unfair on new entrants and limits competition.

Q11. Will the proposal to operate a virtual capacity mechanism and the associated timeframes be helpful in assisting participants to understand and prepare for full operation? Please explain your response.

- Yes, a transition with a virtual market is imperative to managing future risks and understanding of the actual real-life functioning of the capacity mechanisms. The ability to tweak systems and processes is critical.

Q12. What other information or initiatives would be helpful to inform participants on capacity mechanism operations in order to prepare for live operation of the mechanism in 2025-26?

- Open and transparent reporting and future assessment of supply and demand should be adequate.



Q13. *Alternatively, rather than applying a virtual capacity mechanism until 2025-26, do you consider that an earlier commencement of a full operational mechanism is possible and preferred? Please explain your response.*

- A transition period is important however the start date could be brought forward to allow say 14 months of virtual market. That allows a full year and further 2 months for review. 2015/26 unnecessarily delay starting of the market and accordingly the benefits it brings to the NT.

Regards

Michael Allen
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