
Wholesale Electricity Market Pre Market Rule Change Discussion Paper

Submitted by

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Urgency:	Medium
Change Proposal title:	Early Service Special Price Arrangement
Market Rule(s) affected:	Clauses 2.33.5(f), 4.1.26, 4.21.1A (new), 4.28.1, 4.28.1A (new) and Glossary

Introduction

Clause 2.5.1 of the Wholesale Electricity Market Rules provides that any person (including the IMO) may make a Rule Change Proposal by completing a Rule Change Proposal Form that must be submitted to the Independent Market Operator.

This Change Proposal can be posted, faxed or emailed to:

Independent Market Operator

Attn: Dora Guzeleva, Manager Market Administration
PO Box 7096
Cloisters Square, Perth, WA 6850

Fax: (08) 9420 5755

Email: dora.guzeleva@imowa.com.au

The Independent Market Operator will assess the proposal and, within 5 Business Days of receiving this Rule Change Proposal form, will notify you whether the Rule Change Proposal will be further progressed.

In order for the proposal to be progressed, all fields below must be completed and the change proposal must explain how it will enable the Market Rules to better contribute to the achievement of the wholesale electricity market objectives. 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.

Details of the proposed Market Rule Change

1. Outline the issue concerning the existing Market Rules that is to be addressed by the proposed Market Rule change:

Market Rule 4.1.26(b)(ii) allows the Reserve Capacity Obligations for new Facilities to commence on or after 1 August in the Capacity Year in which these Facilities are commissioned.

In addition, Clause 4.20.1 states that:

“Payment for Capacity Credits under these Market Rules can only occur for the period between the time and date that the associated Reserve Capacity Obligations commence and the time and date that the associated Reserve Capacity Obligations cease.”

When this is read with clause 4.1.26 it provides for payment to be made from 1 August. However, there is no mechanism for these payments to be made.

In earlier versions of the Market Rules there was a comment box that stated:

“The intention is that for subsequent Reserve Capacity Cycles other than the First Reserve Capacity Cycle a participant with a Facility commissioned in August would be paid for the period between commissioning and 1 October. The price paid would be the price that would apply to that capacity from 1 October. For the period leading up to 1 October a Short Term Special Price Arrangement should apply. Additions to the short term special price arrangement clause and capacity credit clause will be required to reflect this. However these amendments are not required prior to the second reserve Capacity Cycle.”

There is a strong probability that new generation facilities may be commissioned in the period between 1 August 2008 and 30 September 2008. Consequently, new Market Rules need to now be put in place to ensure that the payments contemplated by clause 4.1.26(b)(ii) can be made if necessary.

The proposed additional rules need to include the following requirements which apply to the payment of these Special Price Arrangements (“Early Service Special Price Arrangements”):

- A Facility will only be eligible for this Special Price Arrangement if it has been assigned Capacity Credits for the first time in the Reserve Capacity Year.
- A Facility will only be eligible if it is a new Facility, ie, it first takes on Reserve Capacity Obligations between 1 August and 30 September of that year.
- The Facility will only be eligible if it is not receiving a Long Term Special Price Arrangement under clause 4.22.
- The price paid should be equal to the price applicable in the Reserve Capacity Year commencing on 1 October.

It is also proposed that the Capacity Credits associated with the Early Service Special Price Arrangements be included in the settlement process as part of the Shared Reserve Capacity Cost. The Reserve Capacity Price for these Special Price Arrangements will be picked up through existing clause 4.29.2. It will then be settled through the term “SUM (a∈A, Monthly Special Price (p,m,a) ...)” in clause 9. 7.1.

The price paid may be either higher or lower than the Reserve Capacity Price being paid for other capacity credits. It is therefore necessary to clarify whether the costs of these Capacity Credits are to be included within the Targeted Reserve Capacity Cost or the Shared Reserve Capacity Cost. It is proposed that clauses 4.28.1 and 4.28.4 be changed to specifically include these costs within the Shared Reserve Capacity Cost. The reasons for proposing this option is that, in general, the IMO should have secured sufficient capacity to meet the Targeted Reserve Capacity and this new capacity will be surplus to the system requirements.

In addition Clause 2.33.5(f), which refers to transfer of a Facility, needs to include reference to the Early Service Special Price Arrangements in addition to other Special Price Arrangements.

2. Explain the reason for the degree of urgency:

It is anticipated that new generation capacity may be brought into service before 1 October 2008. Subject to meeting appropriate conditions, this new capacity may be eligible to receive payment for Capacity Credits under Rule 4.20.1. The proposed changes to the Market Rules must be implemented to allow payments for such new generation to be made.

3. Provide any proposed specific changes to particular Rules (for clarity, please use the current wording of the Rules and place a ~~strikethrough~~ where words are deleted and underline words added)

2.33.5. The Facility transfer form prescribed by the IMO must require that an applicant for transfer of a Facility provide the following:

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- (f) evidence to the satisfaction of the IMO that the party making the application has assumed the Reserve Capacity Obligations associated with the Facility,

and agrees to any Short Term Special Price Arrangements or Long Term Special Price Arrangements or Early Service Special Price Arrangements associated with the Facility.

4.1.26. Reserve Capacity Obligations and Capacity Credits apply:

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4.21.1A.

- (a) The IMO is to grant Early Service Special Price Arrangements to a Market Participant in respect of any Capacity Credits acquired by the IMO where those Capacity Credits are associated with Facilities that are commissioned between 1 August and 30 September of Year 3 of the Reserve Capacity Cycle to which those Capacity Credits apply.
- (b) The Special Reserve Capacity Price for Capacity Credits covered by the Early Service Special Price Arrangements granted under 4.21.1A(a) is to equal the Reserve Capacity Price applicable for the Reserve Capacity Cycle to which those Capacity Credits apply.
- (c) The level of coverage of the Early Service Special Price Arrangements is to equal the quantity of Capacity Credits associated with the Facility to which paragraph (a) relates (where if the IMO reduces the Capacity Credits associated with this Facility in any Trading Month then the average of the number of Capacity Credits of this Facility on each Trading Day during the Trading Month is to apply), less the quantity of Capacity Credits associated with the Facility which are to be covered by Long Term Special Price Arrangements in accordance with clauses 4.22.1 and 4.22.4.

4.28.1 The IMO must separate the total cost of Capacity Credits acquired by it for a Trading Month, including Capacity Credits covered by Special Price Arrangements, into the following two sets:

- (a)
- (b)

determined, subject to clause 4.28.1A, on the basis that the Capacity Credits acquired by the IMO are to be allocated to the set referred to in paragraph (a) in order of decreasing cost per Capacity credit until the capacity requirements referred to in paragraph (a) are met, with the remaining Capacity Credits acquired by the IMO being allocated to the set in paragraph (b).

4.28.1A. Capacity Credits which are the subject of an Early Service Special Price Arrangement in accordance with clause 4.21.1A are to be included within the set referred to in paragraph (b) of clause 4.28.1.

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Early Service Special Price Arrangement: A Special Price Arrangement that applies to a new Facility that is commissioned for the first time between August 1 and September 30 of Year 3 of the Reserve Capacity Cycle to which those Capacity Credits apply.

4. Describe how the proposed Market Rule change would allow the Market Rules to better address the Wholesale Market Objectives:

The primary purpose for making these proposed changes is to make effective existing provisions of the Market Rules.

Early Capacity Credit payment to new generation facilities allows commissioning of new generation to be spread over a period of several months, rather than having all new Facilities seeking to commission at the same time. This reduces the possibility that a system event could be caused by several Facilities undergoing tests and operating simultaneously at high load. As such, this proposed Rule Change supports Market Objective (a):

to promote the economically efficient, safe and reliable production and supply of electricity and electricity related services in the South West interconnected system.

5. Provide any identifiable costs and benefits of the change:

Costs

The implementation of this rule change will require changes to the IMO's IT systems.

Benefits

The major benefit of this proposal is that it will allow the practical operation of already existing clauses of the Market Rules.
