

Independent Market Operator



Rule Change Notice

Title: Reduction of Capacity Credits

Ref: RC_2008_06

Standard Rule Change Process

Date: 26 February 2008

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Independent Market Operator

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1. INTRODUCTION

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

The IMO will assess the proposal and, within 5 Business Days of receiving the proposal form, will notify the proponent whether the proposal will be progressed further.

In order for the proposal to be progressed the change proposal must explain how it will enable the Market Rules to better contribute to the achievement of the Wholesale Market Objectives. The market objectives 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.

A Rule Change Proposal can be processed using a Standard Rule Change Process or a Fast Track Rule Change Process. The standard process involves a combined 10 weeks public submission period, while the fast track process involves the IMO consulting with Rule Participants who either advise the IMO that they wish to be consulted or the IMO considers have an interest in the change.

2. THE RULE CHANGE PROPOSAL

2.1. The Submission

TransAlta submitted, on 15 February 2008, a Rule Change Proposal regarding the addition of new clauses 4.25.4A, 4.25.4B, 4.25.4C to the Wholesale Electricity Market Rules (Market Rules).

This Rule Change Notice is published according to Market Rule 2.5.7, which requires the IMO to publish a notice within 7 Business Days of receiving a Rule Change Proposal.

2.1.1. Submission details

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Date submitted:	15 February 2008
Urgency:	Medium
Change Proposal title:	Reduction of Capacity Credits

2.2. Details of the Proposal

TransAlta submits that section 4.25 of the Market Rules allows the IMO to reduce the Capacity Credits for a Facility as a result of subjecting the Facility to a Reserve Capacity test. However, the Market Rules do not allow the IMO to reduce the Capacity Credits without a test and do not allow the IMO to test a Facility while it is undergoing a forced outage. Participants are required to submit forced outages for the amount of capacity they are not able to deliver as soon as practicable after the commencement of those outages. This is required for system security reasons.

Section 4.25 of the Market Rules provides that Facilities are tested and then retested in the case where they fail to meet their Reserve Capacity Obligation Quantity (RCOQ). In the instance where a Facility fails to meet its RCOQ in both tests, its Capacity Credits are reduced. However, section 4.25 of the Rules also prohibits the IMO from subjecting a Facility to a Reserve Capacity test if it is undergoing a forced outage. That is, a Facility logging a forced outage can not be tested in order to have its number of Capacity Credits reduced in accordance with clause 4.25.4 of the Market Rules.

TransAlta submits that its proposal aims to amend the Market Rules to allow a Participant to request a reduction of the Capacity Credits assigned to one or more of its Facilities by providing a request in writing to the IMO. This will enable Facilities experiencing a forced outage, and thus not being able to undergo a capacity test, to have their Capacity Credits reduced. The intent of the Rules, however, is to provide strong incentives to new facilities to endeavour to commission on time to fully meet their Reserve Capacity Obligations. It is therefore proposed to limit the ability to voluntarily reduce Capacity Credits to facilities that have already commissioned and have received back their Reserve capacity deposit.

TransAlta argues that it is also important to avoid tactical use of the possibility to have Capacity Credits reduced during parts of the year and then later increased. Therefore a Participant, having had its Capacity Credits reduced for a Facility under the proposed new clauses, will not be able to request to have its Capacity Credits increased in the same Reserve Capacity Cycle by undergoing a test under clause 4.25.5. Once reduced, the Capacity Credit will remain at this level throughout the Reserve Capacity Cycle, or longer if so requested in the application.

2.3. The Proposal and the Wholesale Market Objectives

TransAlta submits that the proposal will allow the Market Rules to better address market objective (a):

- (a) *to promote the economically efficient, safe and reliable production and supply of electricity and electricity related services in the South West interconnected system;*

Allowing Participants to apply for a reduction in their Capacity Credits to reflect the actual capabilities of their Facilities will enhance the certainty regarding the amount of reserve capacity available in the SWIS. According to TransAlta's proposal this will enable the IMO to address any reliability issues in a timely manner and thus promote the operation of Market Objective (a).

3. WHETHER THE PROPOSAL WILL BE PROGRESSED FURTHER

The IMO has decided to proceed with this proposal on the basis that the IMO's preliminary assessment indicated that the proposal is consistent with the Wholesale Market Objectives.

The IMO has decided to process this Rule Change Proposal using the Standard Rule Change Process, described in section 2.7 of the Market Rules.

The projected timelines for processing this proposal are:

- This Rule Change Notice published 26/02/2008
- First Submission period 26/02/2008 - 08/04/2008
- Draft Report published 07/05/2008
- Second submission period 08/05/2008 - 05/06/2008
- Final Report published 03/07/2008

4. CALL FOR SUBMISSIONS

The IMO is seeking submissions regarding this proposal. The submission period is six weeks from the publication date of this notice. Submissions must be delivered to the IMO by close of business on **Tuesday 8 April 2008**.

The IMO prefers to receive submissions by email to **marketadmin@imowa.com.au** using the submission form available on the IMO website:
http://www.imowa.com.au/10_5_1_MarketRulesChangeSummary.html

Submissions may also be sent to the IMO by fax or post, addressed to:

Independent Market Operator
Attn: Manager Market Administration
PO Box 7096
Cloisters Square, Perth, WA 6850

Fax: (08) 9254 4399

5. PROPOSED AMENDING RULES

TransAlta proposes the following new clauses to the Market Rules (~~deleted words~~, added words):

Clause 4.25.4A

4.25.4A A Market Participant may apply to the IMO for a reduction in the number of Capacity Credits the Market Participant holds for a Facility.

Clause 4.25.4B

4.25.4B In order for an application under clause 4.25.4A to be assessed by the IMO, it must:

- (a) be in writing;
- (b) relate to a Facility for which the IMO has notified the Market Participant, in accordance with clause 4.13.10, that the need to maintain the Reserve Capacity Security for that Facility has ceased;
- (c) detail the reasons for the reduction in the number of Capacity Credits; and
- (d) indicate whether the application relates only to the current Reserve Capacity Year or includes subsequent Capacity Years.

Clause 4.25.4C

4.25.4C Upon receiving an application under clause 4.25.4A, the IMO, at its sole discretion, must:

- (a) assess the application and any supporting documentation;
- (b) within 10 Business Days of receiving the application inform the Market Participant of its decision whether to reduce the Capacity Credits and the reasons for its decision; and
- (c) if applicable, reduce the amount of Capacity Credits held by the Market Participant in respect of the Facility to which the application relates.

Clause 4.25.4D

4.25.4D A Market Participant may not apply to the IMO for an increase in the number of Capacity Credits for a Facility during a Capacity Year if the Facility has had its Capacity Credits reduced in accordance with clause 4.25.4C for any part of that Capacity Year.