
Wholesale Electricity Market Pre Market Rule Change Discussion Paper

Submitted by

Name:	Allan Dawson
Phone:	08 9254 4300
Fax:	08 9254 4399
Email:	imo@imowa.com.au
Organisation:	IMO
Address:	Level 22 Forrest Centre, 221 St Georges Terrace, Perth WA, 6000
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Urgency:	High
Change Proposal title:	Funding of Supplementary Reserve Capacity
Market Rule(s) affected:	4.28.3 and 4.28.4

Introduction

This Pre Market Rule Change Discussion Paper 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) 9254 4399
Email: marketadmin@imowa.com.au

The discussion paper should 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.
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Details of the proposed Market Rule Change

1) Describe the concern with the existing Market Rules that is to be addressed by the proposed Market Rule change:

Under the current Market Rules, the IMO must separate the total costs of funding Capacity Credits into two separate sets – a Targeted Reserve Capacity Cost and a Shared Reserve Capacity Cost.

The Targeted Reserve Capacity Cost is the cost of Reserve Capacity that is shared amongst those Market Customers who have not had Capacity Credits allocated to them for Trading Month sufficient to cover their Individual Reserve Capacity Requirements. This, under the current Market Rules, includes the net payments to be made by the IMO under any Supplementary Capacity Contracts.

The Shared Reserve Capacity Cost, on the other hand, is the cost of Reserve Capacity to be shared amongst all Market Customers for Trading Month. This cost, for example, will include the cost of any surplus of Capacity Credits relative to the Reserve Capacity Requirement.

This current arrangement for funding the costs of the Supplementary Capacity Contracts does not appear equitable. At the extreme, if all but one Market Customer have fully covered their Individual Reserve Capacity Requirements, the entire cost of any existing Supplementary Capacity Contracts will be covered by that one participant. This would be particularly inequitable if the need to acquire Supplementary Capacity was caused by the unavailability of a generator whose Capacity Credits were used to cover the Individual Reserve Capacity Requirements of a different Market Customer.

This proposal aims at correcting the current potential inequity in the Market Rules. It is proposed to remove the net payments made by the IMO under any Supplementary Capacity Contracts from the Targeted Reserve Capacity Cost and include these in the Shared Reserve Capacity Cost.

The Supplementary Reserve Capacity Working Group, formed by MAC, agrees that this proposal should be progressed as soon as practicable. It notes, however, that the Working Group is yet to fully deliberate on the appropriate funding for the additional costs associated with the use of the Supplementary Reserve Capacity mechanism and the distribution of these costs amongst Market Participants. The Working Group notes, therefore, that there may be further proposed changes to the mechanism once it has concluded its discussions.

2) Explain the reason for the degree of urgency:

While the IMO may or may not need to trigger the Supplementary Reserve Capacity rules in anticipation of the 2008/09 hot season, the proposed Market Rule change is required as a matter of urgency to correct an apparent inequity under the current Market Rules.

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

4.28.3. For each Trading Month, the IMO must calculate the Targeted Reserve Capacity Cost being ~~the sum of:~~

(a) ~~the cost defined under clause 4.28.1(a); and~~

(b) ~~the net payments to be made by the IMO under Supplementary Capacity Contracts less any amount drawn under a Reserve Capacity Security by the IMO and distributed in accordance with clause 4.13.11(a),~~

and the IMO must allocate this total cost to Market Customers in proportion to each Market Customer's Individual Reserve Capacity Requirement less the quantity of Capacity Credits allocated to that Market Customer in accordance with clauses 9.4 and 9.5.

4.28.4. For each Trading Month, the IMO must calculate a Shared Reserve Capacity Cost being the sum of:

(a) the cost defined under clause 4.28.1(b); and

(aA) the net payments to be made by the IMO under Supplementary Capacity Contracts less any amount drawn under a Reserve Capacity Security by the IMO and distributed in accordance with clause 4.13.11(a); less

(b) the Capacity Cost Refunds for that Trading Month; less

(bA) the Intermittent Load Refunds for that Trading Month; less

(c) any amount drawn under a Reserve Capacity Security by the IMO and distributed in accordance with clause 4.13.11(b)

and the IMO must allocate this total cost to Market Customers in proportion to each Market Customer's Individual Reserve Capacity Requirement.

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

The IMO submits that the proposal supports market objective (a) by promoting the economically efficient supply of electricity in the South West Interconnected System. This will be achieved by spreading the cost of Supplementary Reserve Capacity across all Market Customers rather than targeting individual market Customers which may have little to do with triggering these costs.

The IMO also submits that the proposal supports market objective (b) by encouraging competition among retailers in the South West interconnected system. This will be achieved by correcting the apparent inequitable treatment of some retailers under the current Market Rules.

5) Provide any identifiable costs and benefits of the change:**Costs**

It will be necessary to make some changes to the IMO settlement systems to remove the net payments made by the IMO under any Supplementary Capacity Contracts from the Targeted Reserve Capacity Cost and include this in the Shared Reserve Capacity Cost. The cost of this change is yet to be confirmed.

Benefits

The proposed rule change would support the Market Objectives as outlined in section 4 of this proposal.
