

Conclusions drawn from IRCR Working Group

IRCR Working Group

SCOPE

At its October 2007 meeting the Market Advisory Committee endorsed setting up a working group to review the calculation process and components of the Individual Reserve Capacity Requirements (IRCRs).

In order to complete its scope of work, the Working Group is requested to:

- Review the mechanism to set the Reserve Capacity Price when there are projected capacity surpluses and propose options for a more market based approach to such conditions.

At its first meeting the Working Group had general discussion on the process by which the Maximum Reserve Capacity Price is converted into a Reserve Capacity Price. It was noted that:

- a) In the event of capacity oversupply the total Reserve Capacity Cost would remain the same under the existing arrangements;
 - b) The Reserve Capacity Price only refers to uncontracted Capacity Credits in the market i.e. credits that are settled through the IMO; and
 - c) the alternative mechanism of having a market based mechanism (i.e an Auction) to determine the Reserve Capacity Price, as proposed in the past, would increase price volatility and uncertainty.
- Review the inclusion or non-inclusion of new interval and new non-interval loads in the calculation of IRCR.

The group discussed the impact new non-interval meters entering the Notional Wholesale Meter will have on IPP IRCRs. Members agreed that new meters entering the notional wholesale meter are not treated in the same way as new interval meters are for the purposes of IRCR.

It was decided that the IMO would conduct some preliminary high level analysis to determine if this is a plausible argument that has material impact on IRCR outcomes.

Subsequent to the analysis being provided, it was agreed that, because of other intervening factors, such as whether a summer was mild or hot, the IMO's analysis does not provide conclusive evidence of the effects the growth of the Notional Meter would have on other IRCRs.

Notwithstanding this, it was concluded that new meters entering the notional wholesale meter are not treated in the same way as new interval meters for the purposes of IRCR and that this should be corrected.

Members agreed that the Market Rules needed to be amended to treat the growth in the Notional Meter as close as practicable to new Interval Meters.

It was decided to propose amendments to the Market Rules that provide for:

- a) The provision to the IMO, on a monthly basis, of data related to new and disconnected accumulation meters (NMI);
- b) The provision to the IMO, on a monthly basis, of the total number of accumulation meters (NMIs) in the Notional Meter;
- c) The calculation of an average new accumulation meter IRCR (by dividing the Notional Meter IRCR by the total number of the accumulation meters in the Notional Meter);
- d) The estimation of an IRCR for the Notional Meter “new meter” by multiplying the average new accumulation meter IRCR by the net growth in the Notional Meter.

As a result, the second item in the Working Group’s Terms of Reference was addressed in a proposed rule change which comprises amendments to the Market Rules to bring about a more equitable treatment of non-interval or accumulation meters and interval meters in the calculation of retailers’ IRCRs.

- Review the allocation of the Reserve Capacity Margin over all loads / Market Customers and propose methods that would more equitably and accurately reflect load requirements.

At the IRCR Working Group’s first meeting, discussion on the removal of the Non-Temperature Dependent Load component of the IRCR ensued. It was noted that this should not be within the scope of this working group given the recent discussions of MAC regarding outcomes of the Non-Temperature Dependent Load working group.

The group discussed the workings of the IRCR and how the following issues impact on the outcome.

- 1) The translation of maximum demands to a 1 in 10 year POE
- 2) Contribution of the Reserve Margin to the IRCR
- 3) The operation of the IRCR as part of the transitional arrangements for the 1st Reserve Capacity Year, which is a much longer year than normal.
- 4) The impact of demand in the year in which the IRCR is initially calculated (i.e. lower load associated with cooler hot season will result in a greater uplift of the IRCR ratios)

The relevant analysis was presented by the IMO and accepted by the group. No further discussions took place regarding this item.