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## Wholesale Electricity Market Pre Market Rule Change Discussion Paper

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### Submitted by

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| <b>Date submitted:</b>          | 03/09/2008  |
| <b>Urgency:</b>                 | Medium  |
| <b>Change Proposal title:</b>   | <b>Reserve Capacity Security</b>  |
| <b>Market Rule(s) affected:</b> | 4.13.1, 4.13.10 (Protected Provision), 4.13.10A (new), 4.13.11(Protected Provision) , 4.13.11A (new), 4.13.11B (new), |

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### Introduction

This Pre Market Rule Change Discussion Paper can be posted, faxed or emailed to:

**Independent Market Operator**

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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

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

This Rule Change Proposal aims to improve the efficiency of administering the provisions in respect of the return of Reserve Capacity Security. This Rule Change Proposal also aims to clarify these provisions and align them with the initial rule intent.

When a Market Participant has committed to the development of a new Facility, or a Facility upgrade, the Market Rules require the Market Participant to provide Reserve Capacity Security in respect of the Facility. This Reserve Capacity Security is no longer required once:

- The Reserve Capacity Obligations commence; and
- The Facility has operated at a level meeting 100% of its Reserve Capacity Obligation Quantity for one Trading Interval within the Reserve Capacity Year, in which case the requirement ceases immediately subject to a processing period; or
- It has been demonstrated that the Facility operated at a level meeting at least 90% (but not 100%) of its Reserve Capacity Obligation Quantity within the Reserve Capacity Year, in which case the requirement ceases following the end of the Reserve Capacity Year and subject to a processing period.

In respect of the first condition however, the current Market Rules require the IMO to determine, within five business days, that the requirement to hold Reserve Capacity Security in respect of a Facility has ceased. Practically, this places an obligation on the IMO to monitor the Meter Data for each Facility for every trading interval and to make a determination within five business days whether the Facility has met its Reserve Capacity Obligation Quantity.

Given that the Market Participant will be aware of the performance of its Facility and whether or not it has completely satisfied its obligations, it appears to be more sensible to have the obligation to hold Reserve Capacity Security extinguished upon receipt (and appropriate processing) of a request made by the Market Participant to the IMO. This Rule Change Proposal aims to implement this methodology.

In addition to the aforementioned change, it is also proposed that the time required for the IMO to process such an application should be extended to ten business days. In practice, the IMO may receive meter data for a Facility a number of days after the trading day. Further time is then required to analyse the data and make a determination as to whether Reserve Capacity Security is no longer required. The final step is to organise for approvals and release of the Reserve Capacity Security documents from the bank.

In summary, it is not practicable to return the Reserve Capacity within five business days.

In addition to the procedural issues above, this Rule Change Proposal aims to clarify a number of other issues that have arisen in administering these provisions. An improvement to the clarity of these provisions is required:

- to remove doubt as to whether Reserve Capacity security should apply to facility upgrade projects and DSM programmes; and
- to remove doubt as to how the provisions are administered to achieve the intent of the Market Rules.

Facility upgrades present a similar capacity risk to the Wholesale Electricity Market as other new Facilities. It therefore appears reasonable that the requirement to provide Reserve Capacity Security be limited to the capacity associated with the upgrade and not the whole facility.

Finally, as it is currently drafted, clause 4.13.10 (b) could be interpreted as allowing a Participant to claim it has met its reserve capacity obligations and be entitled to the return of its Reserve Capacity Security based on adjustments made in response to forced outages. While such an interpretation is unlikely, this was certainly not the intent of the Market Rules and, therefore, it is proposed to improve the clarity of the applicable clauses to ensure that any potential ambiguity is removed.

## 2) Explain the reason for the degree of urgency:

The proposed amended rules need to be in place as soon as practicable so that Reserve Capacity Security provisions can be administered efficiently as new Facilities operate within the Market for the 2008 Reserve Capacity Year. However, administration of the Reserve Capacity Security provisions is still possible under the existing arrangements. The Standard Rule Change Process will be appropriate to use for this change.

## 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)

### 4.13. Reserve Capacity Security

4.13.1. Where the IMO assigns Certified Reserve Capacity to a Facility (which for the purposes of this clause 4.13 includes part of a Facility and a Demand Side Programme) that is yet to be commissioned, the relevant Market Participant must ensure that the IMO holds the benefit of a Reserve Capacity Security in an amount not less than the amount determined under clause 4.13.2 by the date and time specified in clause 4.1.13 for the Reserve Capacity Cycle to which the Certified Reserve Capacity relates.

4.13.10. ~~Unless clause 4.13.11 applies, A Market Participant is no longer required to ensure~~ that the IMO holds the benefit of a Reserve Capacity Security after:

~~the IMO must notify any Market Participant that has provided the IMO with a Reserve Capacity Security for a Facility that the need to maintain that Reserve~~

~~Capacity Security has ceased, and must refund any Reserve Capacity Security which is in the form of a cash deposit (plus interest earned on that cash deposit) no later than five Business Days following:~~

- (a) ~~the time and date specified in clause 4.1.21, in the case of a Reserve Capacity Security relating to a Facility that provides no Capacity Credits (as notified by the relevant Market Participant under clause 4.20) the time and date specified in clause 4.1.21;~~
- (b) ~~in respect the case of a new Facility that satisfies 100% of its Reserve Capacity Obligation Quantity for the Facility (as determined under clause 4.12.4 and before any adjustment made under clause 4.12.6) in at least one Trading Interval when the Reserve Capacity Obligation Quantity exceeds 0 MW occurring between the date from which Reserve Capacity Obligations apply in accordance with clause 4.1.26 and the day from which Reserve Capacity Obligations cease to apply in accordance with clause 4.1.30 in respect of the Reserve Capacity Cycle, the later of:~~
  - i. ~~the date from which Reserve Capacity Obligations apply in accordance with clause 4.1.26 in respect of the Reserve Capacity Cycle;~~
  - ii. ~~the first day on which a new Facility first satisfies its Reserve Capacity Obligations under clause 4.12.1(a) or (b) (as applicable) in respect of the Reserve Capacity Cycle.~~
- (c) ~~in respect the case of a new Facility to which none of (a), (b), or clause 4.13.11 relate, the day from which Reserve Capacity Obligations cease to apply in accordance with clause 4.1.30 in respect of the Reserve Capacity Cycle.~~

4.13.10A Where a Market Participant considers that clause 4.13.10 applies to it in relation to a Facility, the Market Participant may request the IMO to release the relevant Reserve Capacity Security. Within 10 Business Days after receiving such a request the IMO must:

- (a) determine whether the need to maintain the Reserve Capacity Security has ceased;
- (b) notify the Market Participant of its determination; and
- (c) if the Reserve Capacity Security is a cash deposit that is no longer required to be held, refund the cash deposit (plus interest earned).

~~4.13.11. If a Market Participant provides a Reserve Capacity Security in respect of a Facility under this clause 4.13, and the relevant Facility does not operate at a level (expressed in MWh) that is at least 90% of one-half of the Reserve Capacity Obligation Quantity for the Facility (expressed in MW), in at least one Trading Interval when the Reserve Capacity Obligation Quantity exceeds 0 MW occurring between the date from which Reserve Capacity Obligations apply in accordance with clause 4.1.26 and the day from which Reserve Capacity Obligations cease to apply in accordance with clause 4.1.30 in respect of the Reserve Capacity Cycle, then the Market Participant must pay to the IMO, as compensation to the market, an amount equal to the Reserve Capacity Security amount, which obligation may be satisfied by the IMO drawing upon the Reserve Capacity Security, and applying the amount claimed (after meeting the IMO's costs associated with doing so) so as to:~~

- ~~(a) firstly, offset the cost of funding Supplementary Capacity Contracts for any capacity shortage stemming entirely or in part from the Facility not being available; and~~
- ~~(b) secondly, once all costs to which paragraph (a) refers are covered, make a rebate payment to Market Customers in proportion to their Individual Reserve Capacity Requirements during the Trading Month in accordance with Chapter 9.~~

4.13.11. A Market Participant that provides a Reserve Capacity Security in respect of a Facility under this clause 4.13 must operate the Facility at a level (expressed in MWh) that is at least 90% of one-half of the Reserve Capacity Obligation Quantity for the Facility (as determined under clause 4.12.4 and before any adjustment made under clause 4.12.6, expressed in MW) in at least one Trading Interval when the Reserve Capacity Obligation Quantity exceeds 0 MW. The Trading Interval must fall between the date from which Reserve Capacity Obligations apply in accordance with clause 4.1.26 and the day from which Reserve Capacity Obligations cease to apply in accordance with clause 4.1.30 in respect of the Reserve Capacity Cycle.

4.13.11A If a Market Participant fails to operate a Facility in accordance with clause 4.13.11, then the Market Participant must pay to the IMO, as compensation to the market, an amount equal to the Reserve Capacity Security amount for that Facility.

4.13.11B The payment obligation under clause 4.13.11A may be satisfied by the IMO drawing upon the Reserve Capacity Security for the Facility, and applying the amount claimed (after meeting the IMO's costs associated with doing so) so as to: (a) firstly, offset the cost of funding Supplementary Capacity Contracts for any capacity shortage stemming entirely or in part from the Facility not being available; and

- (b) secondly, once all costs to which paragraph (a) refers are covered, make a rebate payment to Market Customers in proportion to their Individual Reserve Capacity Requirements during the Trading Month in accordance with Chapter 9.
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**4) Describe how the proposed Market Rule change would allow the Market Rules to better address the Wholesale Market Objectives:**

This proposal will help improve reliability and security of supply in regard to new facilities that are entering the Wholesale Electricity Market. This will be accomplished by improving clarity in the processes of the Reserve Capacity Mechanism. This is consistent with 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.*

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

No costs have been identified as part of this Rule Change Proposal.

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