



## Market Advisory Committee

### Agenda

<b>Meeting No.</b>	31
<b>Location:</b>	IMO Board Room Level 3, Governor Stirling Tower, 197 St Georges Terrace, Perth
<b>Date:</b>	Wednesday 8 September 2010
<b>Time:</b>	3.00 – 5.00pm

Item	Subject	Responsible	Time
1.	WELCOME	Chair	5 min
2.	MEETING APOLOGIES / ATTENDANCE	Chair	
3.	MINUTES OF PREVIOUS MEETING	Chair	5 min
4.	ACTIONS ARISING	Chair	
5.	MARKET RULES		
	a) Market Rule Change Overview	IMO	2 min
	b) Presentation: Required Level and Reserve Capacity Security (PRC_2010_12)	IMO	15 min
	c) Updates to CRC (PRC_2010_14)	IMO	15 min
	d) Market Fees (PRC_2010_20)	IMO	15 min
6.	MARKET PROCEDURES		
	a) Overview	IMO	5 min
7.	WORKING GROUPS		
	a) Overview	IMO	2 min

Item	Subject	Responsible	Time
	b) Maximum Reserve Capacity Price Working Group Update	<b>IMO</b>	10 min
	c) Rules Development Implementation Working Group Update	<b>IMO</b>	5 min
<b>8.</b>	<b>PROJECT UPDATES</b>		
	a) Curtailable Loads Project Update	<b>IMO</b>	20 min
<b>9.</b>	<b>GENERAL BUSINESS</b>		
<b>10.</b>	<b>NEXT MEETING: 13 October 2010</b>		

## Independent Market Operator

### Market Advisory Committee

## Minutes

<b>Meeting No.</b>	30
<b>Location:</b>	IMO Board Room Level 3, Governor Stirling Tower, 197 St Georges Terrace, Perth
<b>Date:</b>	Wednesday 11 August 2010
<b>Time:</b>	Commencing at 2.00 - 5.28 pm

Attendees	Class	Comment
Allan Dawson	Chair	
Troy Forward	Compulsory – IMO	
Stephen MacLean	Compulsory – Customer	
Ken Brown	Compulsory – System Management	
Wendy Ng	Compulsory – Generator	
Peter Mattner	Compulsory – Network Operator	
Corey Dykstra	Discretionary – Customer	
Steve Gould	Discretionary – Customer	
Peter Huxtable	Discretionary – Contestable Customer Representative	
Andrew Sutherland	Discretionary – Generator	
Shane Cremin	Discretionary – Generator	
Chris Brown	Observer – ERA	
Tony Perrin	Minister's appointee/ Small Use Customers	
Also in attendance	From	Comment
John Kelly	IMO Board Chairman	Observer
Jacinda Papps	IMO	Presenter
Fiona Edmonds	IMO	Presenter
Ben Williams	IMO	Presenter
Jenny Laidlaw	IMO	Minutes
Neil Gibbney	Western Power	Observer
John Rhodes	Synergy	Observer
Greg Thorpe	Oates Implementation Review Team	Observer
Jim Truesdale	Concept Consulting	Observer
Courtney Roberts	IMO	Observer
Matt Pember	IMO	Observer

Item	Subject	Action
1.	<p><b>WELCOME</b></p> <p>The Chair opened the meeting at 2.00 pm and welcomed members to the 30th meeting of the Market Advisory Committee (MAC).</p> <p>The Chair noted three changes to the agenda:</p> <ul style="list-style-type: none"> <li>the addition of a discussion around the 19 July 2010 MAC pathway decision;</li> <li>the 19 July 2010 MAC pathway decision and other Market Rules</li> </ul>	

Item	Subject	Action
	<p>Design Review items to be addressed earlier than previously indicated; and</p> <ul style="list-style-type: none"> <li>the Pre Rule Change Discussion Paper PRC_2010_17: IRCR Timing had been withdrawn from the agenda at Synergy's request.</li> </ul> <p>An updated meeting agenda was tabled.</p>	
2.	<p><b>MEETING APOLOGIES / ATTENDANCE</b></p> <p>No apologies were received. The following other attendees were noted:</p> <ul style="list-style-type: none"> <li>John Kelly (Observer)</li> <li>Ben Williams (Presenter)</li> <li>Neil Gibbney (Observer)</li> <li>Greg Thorpe (Observer)</li> <li>Courtney Roberts (Observer)</li> <li>Fiona Edmonds (Presenter)</li> <li>Jacinda Papps (Presenter)</li> <li>John Rhodes (Observer)</li> <li>Jim Truesdale (Observer)</li> <li>Matt Pember (Observer)</li> </ul>	
3.	<p><b>19 JULY 2010 DECISION</b></p> <p>The Chair noted that Mr Andrew Sutherland had contacted the IMO after Special Meeting No. 3 to raise his concerns regarding the MAC pathway decision. The Chair asked Mr Sutherland to present his concerns to the MAC.</p> <p>Mr Sutherland was concerned that the MAC may have made a short-sighted decision about the B/C options. Mr Sutherland was not sure whether the decision to investigate the B/C options should be considered as a broader policy decision or as a technical market efficiency decision. Mr Sutherland acknowledged the shortage of industry resources that influenced the decision but considered that the B/C analysis could be undertaken after the short term work and that the MAC might well find that it could not fully resolve the agreed market issues with the hybrid model. Mr Sutherland submitted that looking ahead, changes such as the new Verve gas arrangements could have a serious impact on balancing prices by 2015.</p> <p>Mr John Kelly, the IMO Board Chairman, thanked the MAC for the opportunity to attend the meeting. Mr Kelly noted that his comments represented his own view, as to date nothing official regarding the pathway decision had been presented to the IMO Board. Mr Kelly said he had been surprised to hear the 19 July 2010 decision, and had come to this meeting to understand the reasoning behind the decision.</p> <p>Mr Kelly estimated that it would take around 18 months to implement an A1/A2 option. Mr Kelly considered that it would therefore be at least four to five years before a more mature model could be implemented, during which time he would expect the market to grow and include more Demand Side Management (DSM) and wind generation. Mr Kelly's thoughts were that the A1/A2 options did not address the issue of Verve Energy as the sole balancer, and that this could become a significant problem over the next few years. Mr Kelly submitted that in the future it might not be feasible for Verve Energy to be the primary balancer, noting the future termination of the</p>	

Item	Subject	Action
	<p>Vesting Contract and the possible introduction of Full Retail Contestability (FRC). Mr Kelly also considered that the capital constraints on Western Power would continue, as would network constraints, and that there may be a need to look at a constrained network model in this timeframe.</p> <p>Mr Kelly considered that to wait another three years to start considering a B/C option implied an implementation date nine years hence. Right now there was an opportunity to use the momentum that had arisen from the Verve Energy Review. Mr Kelly suggested that the MAC should not underestimate how hard it would be to generate such momentum again. Mr Kelly could not see what catalyst might exist in future to generate the kind of momentum presently available.</p> <p>Mr Kelly considered that if a B/C analysis was undertaken soon and proved to be favourable then it might be implemented in three to four years, giving a solution that would meet the future challenges and might also help to reduce the A1/A2 costs. Mr Kelly sought the MAC's view on his thoughts.</p> <p>The Chair opened up the floor for comment. The following comments were made.</p> <ul style="list-style-type: none"> <li>Mr Tony Perrin stated that he stood by the comments he had made in the previous meeting, as reflected in the minutes. Mr Perrin agreed that change is needed but submitted that there were size and scope issues to consider. There were not just the Market Rules to be considered but also contextual issues that were needed to make the change effective. Mr Perrin considered the current regime has been effective in bringing in generation capacity, but submitted that the main problem was with retailers, both in gas and electricity. Mr Perrin acknowledged the current restrictions on electricity retailing but considered that FRC was not the only problem, and that getting a mandate to look wider was important.</li> </ul> <p>Mr Sutherland asked why FRC was not possible under the current design. Mr Perrin responded that cost-reflectivity was the main consideration, but there were also technical issues, notably in relation to metering.</p> <ul style="list-style-type: none"> <li>Mr Corey Dykstra clarified that an A1/A2 decision, as outlined by Mr Kelly, was not the decision that was made by the MAC. The MAC decision was not to pursue the A1/A2 options, but to address the current shortcomings in the market, including participation in balancing and Ancillary Services. The Chair agreed, but added that this had been coupled with pushing the hybrid model as far as possible. Mr Dykstra agreed, considering that there may well be a time when the MAC decides that there is no scope available under the hybrid model. Mr Dykstra commented that if this happens then the MAC would look at the options available.</li> </ul> <p>Mr Kelly noted his understanding that no-one had discovered a satisfactory solution for Balancing under the hybrid model. Mr Dykstra responded that it would be a market wide issue if in the next two years an answer to the current Balancing issues had not been found, and that industry would then need to move to the next option. Mr Dykstra repeated that the decision was about looking at the issues that needed to be resolved and finding solutions. If this could not be done using the</p>	

Item	Subject	Action
	<p>current hybrid model then other options would need to be considered. Mr Dykstra submitted that the MAC had been put into a position where it could only really choose Pathway 1 or Pathway 2, and as industry resources were insufficient to address the B/C options as well as the short term issues the MAC was left with looking at the hybrid model only. Mr Dykstra considered that the current decision did not remove the ability for industry to look at the B/C options later on.</p> <ul style="list-style-type: none"> <li>Mr Shane Cremin noted that while he agreed a more mature market will be needed in future there was a need to address some immediate issues. Mr Cremin noted the billions of dollars that had been invested in the market, and submitted that costs had increased at a rate significantly higher than CPI. Mr Cremin considered that there needed to be some robust work done to address these issues.</li> </ul> <p>Mr Kelly responded that he had not meant to imply that the decision had been to never look at the B/C options. In looking at A1/A2 many of the issues of concern would be addressed. Mr Kelly considered that the MAC has a responsibility to look at the best outcome for the industry as a whole, although he acknowledged Mr Cremin's concerns and comments. Mr Cremin reiterated the need to start working on the current problems now.</p> <ul style="list-style-type: none"> <li>Mr Stephen MacLean considered that there was a problem in that no-one could quantify the benefits of the B/C options.</li> <li>Mr Troy Forward noted that the decision had been to pursue Pathway 1 (by looking at the issues and not the A1/A2 solutions in particular), and that the main difference between Pathway 1 and Pathway 2 was whether to keep the B/C options on the table. In other words, the MAC had two possible solution spaces, and the decision had been whether to keep working on both solution spaces. Mr Forward thought the decision had been not to look at the B/C options <i>now</i>, and asked the MAC if this was a reasonable assessment. There was no dissent expressed. Mr Forward noted that some might consider it short-sighted to remove the B/C options from consideration in this way.</li> <li>Mr Sutherland agreed that the wording of the decision suggested that the B/C option was being removed from consideration. Mr Dykstra considered that this represented a trade-off – should the MAC concentrate on the immediate issues? Mr Sutherland noted that his suggestion did not involve looking at the B/C options in parallel with the work to address immediate issues.</li> <li>Mr Dykstra noted that he was not sure how long that process was going to take. Mr Dykstra queried whether analysis of the B/C options should be considered at the end of the initial work, or whether the MAC would want time to assess the results of the changes. Mr Dykstra suggested that the MAC would need to give time to see how the initial improvements were working before continuing. Mr Sutherland considered that this assessment could be undertaken quite quickly, and that if the B/C options are removed from the table now it could be 10 years before any eventual implementation.</li> </ul>	

Item	Subject	Action
	<ul style="list-style-type: none"> <li>Mr Ken Brown considered that addressing the immediate issues first would probably put off consideration of the B/C options for no more than 12 to 18 months. Mr Brown reiterated that an attempt should be made to correct the key Balancing and Ancillary Services issues under the current hybrid model before any cost/benefit analysis of the B/C options is undertaken, to ensure that the appropriate basis is used for the analysis. Mr Brown did not see the decision as taking the B/C options off the table for six years. Mr Kelly responded that Mr Brown's view was different to what he had heard about "pushing the hybrid model to the maximum extent".</li> <li>Mr Forward noted that this was a <i>pathway</i> decision. Mr Dykstra responded that the MAC had not accepted the paper presented by the Market Rules Design Team (MRDT). Mr Dykstra reiterated his view that the decision was to fix the problems identified, and not to assign labels. The Chair submitted that while Mr Dykstra was not keen on labels there were many stakeholders who had been briefed using these labels. Mr Dykstra repeated that the MAC had chosen not to accept the options as put on the table. The Chair stated that his recollection was that there had been a decision for Pathway 1. Mr Dykstra disagreed, stating that the decision was to fix the problems.</li> <li>Mr MacLean considered that the good news to be taken from the decision was that the MAC had not given up on the current market design, and would try to make something of this model before moving on to other options.</li> </ul> <p>Dr Steve Gould questioned whether it would be more fruitful to review the MAC decision, giving regard to the comments raised during the meeting. The Chair agreed with Dr Gould that moving on to the wording of the decision would be constructive. Mr MacLean queried whether the purpose was to endorse the wording of the decision one last time or to review the decision. The Chair replied that this was up to the MAC.</p> <p>Mr Dykstra suggested that the MAC first agree the set of words that reflected the decision reached at Special Meeting No. 3, and then possibly review this decision. Mr Dykstra considered that the two tasks should be separated to provide an audit trail. Dr Gould considered that this approach was unnecessary and wished to focus on what the decision should be. After some discussion there was a general agreement that it was reasonable to focus on what the decision should be.</p> <p>The MAC reviewed the wording of each paragraph of the decision and agreed to make the following changes. A full copy of the revised decision is attached as Appendix 1.</p> <p><u>"...the Verve Energy Review and other relevant issues that have been highlighted by the process. The preference is that Pathway 1. However, the MAC's recommendation that the IMO Board pursue Pathway 1 was conditional in that it does not endorse any specific solutions to the issues under consideration.</u></p> <p>In particular, the MAC agreed that:</p> <ul style="list-style-type: none"> <li><del>It would not recommend the exploration of options B and C to the</del></li> </ul>	

Item	Subject	Action
	<p><del>IMO Board as they are policy decisions and no further exploration of them would be undertaken under this market design review project;</del></p> <ul style="list-style-type: none"> <li>○ <del>Initial development</del> Development work should assume the retention of the current hybrid market design, <del>pushing</del> <u>evolving</u> this design as far as practicable, <u>prior to considering exploration of further market design options;</u></li> <li>○ It would determine and prioritise at the 11 August 2010 MAC meeting an action plan drawn from the issues identified during the market design review project, the Verve Energy Review, the Market Rules Evolution Plan and raised by the MAC;</li> <li>○ The IMO will need to deliver <del>robust</del> <u>reliable and stable</u> IT solutions within the current market system framework...”</li> </ul> <p><i>Action Point: The IMO to update the wording of the MAC pathway decision to reflect the changes agreed by MAC members.</i></p> <p><i>Action Point: The IMO to update the letter to the IMO Board Chairman to include the revised pathway decision.</i></p> <p>Mr Kelly restated his concern that the industry may not be ready to deal with future changes unless it moves quickly in relation to the B/C options. Mr Sutherland agreed with Mr Kelly’s concerns. Mr Kelly queried if there would be a stage where the MAC could make a decision on whether the hybrid model would work. Mr MacLean considered that there may be no clear trigger in future for a B/C option, but considered that this was a question for the future. Mr Perrin stated that he did not see why there was a trigger now.</p> <p>Mr Dykstra responded that if funding was available to undertake the analysis then the MAC could wait on the trigger to commence this work. The MAC would work with the hybrid model, but then might decide to undertake the B/C analysis. Mr Cremin noted that he had raised this in Special Meeting No.3. Mr Sutherland preferred that funding for the B/C analysis was included as part of the current project.</p> <p>Mr Peter Huxtable queried whether the decision to undertake a B/C analysis should be made after the Pathway 1 changes were designed or after they had been implemented and reviewed. Mr Forward noted that it would be possible to design the Pathway 1 changes and then start the analysis for B/C while the Pathway 1 IT changes were being implemented. Mr MacLean stated that he would oppose creating any artificial trigger for the B/C options.</p> <p>Mr Dykstra submitted that the question was whether the MAC wanted to include funding for a B/C analysis in the current project. Mr MacLean considered that this was not necessary and was likely to be ineffective as the timing was too soon. The Chair noted that if the MAC concluded that no meaningful competition was possible under the hybrid model then it would have the option to continue immediately with a B/C analysis if the funding was available. Mr Cremin agreed, considering that he would prefer to have the funding readily available in case it was needed.</p> <p>Mr Perrin considered that it was a good idea to link the two, but the question</p>	<p><b>IMO</b></p> <p><b>IMO</b></p>



Item	Subject	Action
	<p>was how to go about it, i.e. whether the funding should be sought as one amount or two. The Chair stated that he would strongly suggest seeking the funding in one approval. Dr Gould suggested that one of the three proposed work streams could be tasked to monitor for the trigger to pursue the B/C options further.</p> <p>Mr MacLean repeated his opposition to the proposal, considering it to be a presumptive trigger which could be misinterpreted. Mr MacLean considered that any future consideration of the B/C options should stand alone.</p> <p>Mr Dykstra suggested that the project include a post-implementation evaluation which would look at how to address any remaining shortcomings. Mr Kelly queried whether the evaluation should be post implementation or post detailed design. Mr Dykstra responded that it could be either, but that the MAC requires the discretion. The Chair queried whether this trigger needed to be included in the Terms of Reference (ToR) for the Rules Development Implementation Working Group (RDIWG). There was general support for this idea.</p> <p>Mr Kelly thanked the MAC for the opportunity to participate in the discussion.</p>	
<b>4a</b>	<p><b>MARKET RULES DESIGN PROBLEM STATEMENT</b></p> <p>The Chair noted the Market Rules Design Problem Statement document, stating that the purpose was to prioritise the issues and to decide which issues should be packaged together. The Chair gave the Balancing price, UDAP and DDAP as an example of issues that formed a natural package.</p> <p>Mr Forward asked if there were any other issues to be added to the list. No additional issues were identified.</p> <p>When discussing the prioritisation of the issues, the following points were noted:</p> <ul style="list-style-type: none"> <li>• Mr MacLean considered that the need for a clean Balancing curve should be the first issue addressed, while the timing of electricity nominations in relation to gas nominations was another important issue. The Chair noted that the IT cost of addressing the nomination timing issue was low. Mr MacLean noted the benefits of being able to consider the 12 pm weather forecast in the nomination process. Mr Sutherland proposed that a clean MCAP curve should be considered as part of a package including UDAP/DDAP.</li> <li>• Mr Dykstra noted the length of the agenda and questioned whether the MAC wanted to prioritise the issues immediately or else deal with the rest of the agenda. The Chair suggested that the MAC select the first issue to be addressed and then leave the rest of the prioritisation process until later. Mr Ken Brown considered that nomination timing should not be the first issue addressed.</li> <li>• Mr Dykstra considered that the balancing price was part of the participation issue and there was a need to look at all the issues around balancing together. Mr Sutherland agreed with Mr Dykstra. The Chair asked if there was general agreement that participation in Balancing was</li> </ul>	

Item	Subject	Action
	<p>the big issue. Mr MacLean and Ms Wendy Ng submitted that a clean MCAP curve could be treated as a separate priority, noting that MCAP, UDAP and DDAP were interlinked. Mr Dykstra disagreed, considering that this issue needed to be packaged with the wider balancing participation issues.</p> <ul style="list-style-type: none"> <li>Mr Forward suggested that there was a need to understand just what “broader participation in Balancing” meant. Mr Forward considered that provision of a clean MCAP would require significant IT changes. Mr Forward agreed with Ms Ng in that it would be possible to look at the detailed design for the MCAP price issue first, and then (once the relevant IT work was underway) look at the participation issue, which was more a contractual problem. Mr Sutherland stated that he still wanted to see the solutions for these issues implemented together.</li> </ul> <p>Ms Ng stated that the work of the Renewable Energy Generation Working Group (REGWG) in relation to Ancillary Services had been mentioned in the paper, but participation in Ancillary Services was not included in the issue list. The Chair asked Mr Ken Brown about the progress of System Management’s work on Ancillary Services provision and whether it should be included as part of this project, noting that Mr Alistair Butcher and Mr Matthew Fairclough had transferred to other sections of Western Power. Mr Brown did not wish the work to be included in the project at this stage, advising that System Management wanted to do some more work on their proposal. It was agreed that System Management would continue its work and report back to the RDIWG or MAC at a later date.</p> <p>The Chair concluded that the first priority was a package including a clean Balancing curve, UDAP/DDAP and broader participation in Balancing. The Chair asked MAC members to review the list and assign priorities to the remaining issues.</p> <p><i>Action Point: MAC members to review the list and provide the IMO with details of their assigned priorities to the remaining issues.</i></p> <p><i>Action Point: The IMO to collate MAC member’s responses on the prioritisation of issues for the first Rules Development Implementation Working Group (RDIWG) meeting.</i></p>	<p><b>MAC</b></p> <p><b>IMO</b></p>
4b/4c	<p><b>WORKING GROUP TERMS OF REFERENCE AND PROPOSED MEMBERSHIP STRUCTURE</b></p> <p>The Chair directed the attention of the MAC to the draft Terms of Reference and Proposed Structure for the RDIWG.</p> <p>The following amendments were agreed:</p> <ul style="list-style-type: none"> <li>Include a post implementation evaluation in the ToR;</li> <li>Compulsory positions for Verve Energy and Synergy in the RDIWG membership;</li> <li>Proxies to be allowed subject to approval of the Chair;</li> </ul>	

Item	Subject	Action
	<ul style="list-style-type: none"> <li>• The Office of Energy (OoE) representative to be a full member rather than an observer;</li> <li>• The Chair to have the option to invite other members to participate in the RDIWG at his discretion;</li> <li>• The RDIWG to report back to each MAC meeting, opposed to every month; and</li> <li>• The ToR to note “appropriate number of development work streams” rather than “three development work streams”.</li> </ul> <p>Mr Forward noted that the IMO had proposed a workshop style for meetings of the RDIWG, rather than a more formal approach. The meetings would be used to workshop ideas and would not be minuted apart from noting key actions and outcomes. There was general agreement with this approach. The Chair suggested that initially the RDIWG would meet for about half a day every two to three weeks, and that this timetable would be reviewed after a suitable period.</p> <p>Mr Huxtable queried the mechanism to keep wider industry informed of the progress of the RDIWG. Mr Forward replied that the IMO is likely to run a number of workshops to keep industry up to date. Mrs Jacinda Papps advised that a market communications plan had been included in the project planning to date.</p> <p>Mr MacLean asked about the selection process for the RDIWG. The Chair confirmed that it would be similar to that used for the Maximum Reserve Capacity Price Working Group (MRCPWG). Dr Gould noted that the draft Terms of Reference stated that the Chair and members of the RDIWG would be selected by the MAC. The Chair responded that this was an error and that all representatives would be selected by the IMO.</p> <p>Mr Forward noted that the proposed structure included an optional Network Operator representative and asked Mr Peter Mattner if Western Power wanted to be represented. Mr Mattner replied that he expected Western Power to be interested in some aspects of the work but not others, and so would prefer the optional membership as proposed.</p> <p>The Chair advised that the IMO would call for nominations using the numbers in the proposed structure.</p> <p><i>Action Point: The IMO to update the Terms of Reference and the membership structure for the Rules Development Implementation Working Group (RDIWG) to reflect the points raised by the MAC.</i></p> <p><i>Action Point: The IMO to publish the updated Terms of Reference for the RDIWG and call for nominations for membership.</i></p>	<p>IMO</p> <p>IMO</p>
5a	<p><b>MEETING NO. 29: 16 JUNE 2010 - MINUTES</b></p> <p>The minutes of MAC Meeting No. 29, held on 16 June 2010, were circulated prior to the meeting.</p> <p>The following amendments were agreed:</p>	

Item	Subject	Action
	<p><u>Page 12: Section 10: Future Procurement of Spinning Reserve and Load Following</u></p> <ul style="list-style-type: none"> <li>“When <u>will</u> the Load Following auction <del>would</del> be held in relation to STEM processing <u>(i.e. before or after)</u>? Ms Ng noted that Verve Energy is currently notified of its Ancillary Services obligations before the <del>closure</del> <u>opening</u> of the STEM window.”</li> </ul> <p>Subject to the agreed amendments, the MAC endorsed the minutes as a true and accurate record of the meeting.</p> <p><i>Action Point: The IMO to amend the minutes of Meeting No. 29 to reflect the points raised by the MAC and publish on the website as final.</i></p>	IMO
5b	<p><b>SPECIAL MEETING NO. 3: 19 JULY 2010 - MINUTES</b></p> <p>The minutes of MAC Special Meeting No. 3, held on 19 July 2010, were circulated prior to the meeting.</p> <p>The following amendments were agreed:</p> <p><u>Page 3: Section 3: Pathway Discussion and Decision</u></p> <ul style="list-style-type: none"> <li>“Mr Sutherland noted that his main concern is the balancing <u>and reserve capacity refund</u> issue, considering that if a generator was out for a month in summer they could be <del>bankrupted</del> <u>placed under severe financial stress</u> by the current <del>DDAP</del> penalties. The Chair noted that balancing, UDAP/DDAP and Reserve Capacity refund issues were inextricably linked.</li> </ul> <p>Mr Sutherland considered that no-one knew what options B or C would look like or what benefits they would bring to the market, <u>and therefore these options need further design review for a proper cost/benefit analysis</u>. The Chair noted that at this stage...”</p> <p>Subject to the agreed amendments, the MAC endorsed the minutes as a true and accurate record of the meeting.</p> <p><i>Action Point: The IMO to amend the minutes of Special Meeting No. 3 to reflect the points raised by the MAC and publish on the website as final.</i></p>	IMO
6	<p><b>ACTIONS ARISING</b></p> <p>The actions arising were either complete or on the meeting agenda. The following exceptions were noted:</p> <p><b>Item 59:</b> It was noted that this will be progressed as part of the Certified Reserve Capacity (CRC) review process.</p> <p><b>Item 62 and Item 63:</b> Underway. Mr Forward advised that the IMO was working on a Pre Rule Change Discussion Paper for Curtailable Load following the completion of the CRC process for the year.</p> <p><b>Item 65:</b> Mr Forward advised that the IMO had contracted Marchmont Hill</p>	

Item	Subject	Action
	<p>Consulting to assist with this review, and that a draft report was expected on the September 2010 MAC meeting agenda.</p> <p><b>Item 67:</b> Mr Perrin provided an update on the progress of the review of gas contingency service options. Mr Perrin advised that the OoE had engaged consultants and were at the draft report stage. Mr Perrin expected that a report would be published in the next few weeks.</p> <p>Mr Dykstra queried whether the MAC had had visibility of the dual fuel issue. Mr Forward responded that the IMO had undertaken to investigate options for incentivising dual fuel capability. Mr Perrin noted that the OoE would have some comments to make on dual fuel incentives in its report. Mr Ken Brown noted that specific recommendations had been made in relation to two units 26 months previously, and expressed his concerns about the ongoing delay in addressing the issue.</p> <p>The Chair looked forward to the publication of the OoE report. In response to a request from Mr Forward, Mr Perrin agreed to provide the IMO with a copy of the report for distribution to the MAC.</p> <p><i>Action Point: The Office of Energy to provide the IMO with a copy of its report on gas contingency service options for distribution to MAC members.</i></p> <p><i>Action Point: The IMO to distribute the report provided by the Office of Energy on gas contingency service options to MAC members.</i></p> <p><b>Item 68:</b> Mr Forward noted that Alinta had formally submitted its Rule Change Proposal: Adjustment of Relevant Level for Intermittent Generation Capacity (RC_2010_24) into the Rule Change Process.</p> <p><b>Item 77:</b> Mr MacLean noted that Synergy's proposal has been presented twice to the MAC and requested that the action point be removed.</p> <p><b>Item 78:</b> Mr Ken Brown noted that although Mr Butcher and Mr Fairclough had left System Management other staff members were working on the proposal for the competitive procurement of Ancillary Services and he was still hoping to complete the work by July 2011. Mr Brown wanted the arrangements to be organised before the commissioning of the Collgar wind farm.</p>	<p><b>OoE</b></p> <p><b>IMO</b></p>
<b>7a</b>	<p><b>MARKET RULE CHANGE OVERVIEW</b></p> <p>The MAC noted the overview of the Market Rule changes.</p>	
<b>7b</b>	<p><b>REMOVAL OF NCS PROCUREMENT FROM THE MARKET RULES [PRC_2010_11]</b></p> <p>Mr Forward noted that during 2009 an informal working group had investigated several issues relating to Network Control Service (NCS) provision. Late in 2009 the OoE had suggested that Western Power take over responsibility for the procurement of NCS contracts from the IMO. At the April 2010 MAC meeting the IMO undertook to prepare a Pre Rule Change Discussion Paper in conjunction with Western Power and System Management to implement the OoE recommendations with regard to the Market Rules.</p>	

Item	Subject	Action
	<p>During the preparation of the Pre Rule Change Discussion Paper a number of areas were identified for additional consideration by the MAC. Mr Forward asked Mrs Papps to lead the discussion of these issues.</p> <p>Mrs Papps noted that in its Pre Rule Change Discussion Paper the IMO had sought to resolve the potential cross subsidy in NCS energy payments from Market Participants to the SWIS users benefitting from the NCS. The IMO proposed that the price paid by the market for energy dispatch under an NCS contract should be:</p> <ul style="list-style-type: none"> <li>• MCAP, if the NCS is provided by generation; and</li> <li>• zero, if the NCS is provided by DSM.</li> </ul> <p>Mrs Papps noted that these prices were not intended to be an accurate representation of what the energy was worth, but were chosen to reflect the price paid for any energy purchased by a downward balancing generator. Mrs Papps submitted that while MCAP was not always the balancing price the variation was small under the current balancing regime and could be ignored for the sake of simplicity. Mrs Papps asked MAC members for their opinions on the proposed prices (discussion point 1).</p> <p>Mr Sutherland queried whether potential NCS providers would accept an MCAP energy price, considering that they would expect price certainty. Mrs Papps responded that MCAP was only the price paid by the market, and the Network Operator was likely to pay the NCS provider the difference between MCAP and a more stable agreed energy price.</p> <p>Mr Dykstra queried why the Network Operator was not liable for the entire energy payment, given that the service was a substitute for a transmission solution for which only the affected network users would pay. Ms Jenny Laidlaw replied that the MCAP payment was needed because actual electricity would be generated and purchased by the balancing generator, and that if the Network Operator was to pay for this and pass the charge through to customers then those customers would be paying for their electricity twice. Ms Laidlaw added that no payment was needed for an NCS provided by DSM as no additional electricity would be generated.</p> <p>Mr Mattner noted that the OoE had raised some issues about NCS and suggested that the IMO delay the formal submission of PRC_2010_11 as a Rule Change Proposal until these issues have been resolved. Mr Neil Gibbney noted one issue was that it was not clear whether Western Power had the necessary powers under sections 41 and 42 of the Electricity Corporations Act. Mr Forward suggested that the OoE discuss the issues with Western Power off-line and provide an update to the MAC at the next meeting.</p> <p><i>Action Point: The Office of Energy and Western Power to discuss the concerns relating to the future provision of Network Control Services and provide an update to the MAC at the September 2010 meeting.</i></p> <p>Mr Dykstra requested further clarification regarding discussion point 3, as he did not understand the issue. Mrs Papps replied that the IMO was merely bringing the potential double payment issue to the attention of the MAC. Mr Forward considered that capacity payments for NCS providers are expected</p>	<p>OoE</p>

Item	Subject	Action
	<p>to be dealt with in a similar way to NCS energy payments, in that the Network Operator would pay the NCS provider the difference between the amount paid by the market and the total (availability or energy) payment due under the NCS contract.</p> <p>Mr Ken Brown noted that he would want to be able to dispatch a Facility providing NCS either under the NCS contract or else as a normal Facility. Mr Dykstra considered that that an NCS provider should not receive Capacity Credits for capacity covered by an NCS contract. There was some discussion about whether/when Capacity Credits should be awarded to NCS Facilities.</p> <p>Mr Sutherland queried whether the IMO had considered the scenario of a generator located behind an existing network connection (and serving an Intermittent Load) being contracted to provide an NCS. Mr Sutherland considered that there could be settlement issues if the metering at the site did not measure the output of the generator directly, allowing assessment of its response to System Management Dispatch Instructions. Mr Forward agreed the IMO would investigate this scenario.</p> <p><i>Action Point: The IMO to investigate potential settlement issues relating to NCS provision by generators supplying an Intermittent Load and lacking independent metering, and report back to the MAC with its findings.</i></p> <p>Mr Ken Brown queried why the proposed clause 5.3A.3 categorically excluded the provision of NCS payment terms to System Management. Mr Gibbney suggested that this information could be used by System Management in their dispatch planning. The Chair questioned why Western Power would not give System Management a Merit Order for NCS dispatch. Mr Brown replied that determination of a Merit Order would not always be simple, as several factors would need to be considered, for example the length of the dispatch.</p> <p>Mr Mattner stated that he was happy to discuss the matter off-line, but could not see a situation where there would be a choice of NCS providers for a particular location. The Chair suggested that Mr Mattner and System Management discuss the issue further and then advise the IMO of their position, noting that the IMO would update PRC_2010_11 to reflect the advice provided.</p> <p><i>Action Point: Western Power and System Management to discuss the provision of NCS payment terms to System Management and advise the IMO whether the NCS Rule Change Proposal (PRC_2010_11) should be updated to remove the exclusion in proposed clause 5.3A.3.</i></p> <p>With regard to discussion point 2, Mr Chris Brown noted that the ERA would need to take the issue off-line and consider it further.</p> <p><i>Action Point: The ERA to consider the NCS Rule Change Proposal (PRC_2010_11) further and provide an update to the MAC at the September 2010 meeting.</i></p> <p>The Chair advised that the IMO would not formally submit PRC_2010_11 into the rule change process at this stage given further work was required. Instead the IMO would modify the Pre Rule Change Discussion Paper to</p>	<p><b>IMO</b></p> <p><b>WP/SM</b></p> <p><b>ERA</b></p>

Item	Subject	Action
	<p>reflect the updates provided by the Office of Energy, Western Power and the ERA and present the revised paper to the MAC when appropriate.</p> <p><i>Action Point: The IMO to update the NCS Rule Change Proposal (PRC_2010_11) to reflect the advice received from the OoE, Western Power and the ERA and present the updated paper to the MAC.</i></p>	<b>IMO</b>
<b>7c</b>	<p><b>RESERVE CAPACITY SECURITY [PRC_2010_12]</b></p> <p>Ms Fiona Edmonds was asked to present the Pre Rule Change Discussion Paper: Required Level and Reserve Capacity Security (PRC_2010_12).</p> <p>Ms Edmonds noted that the paper implemented the recommendations of the MAC at its May 2010 meeting on the Concept Paper: Reserve Capacity Security (CP_2010_04). The paper also introduces the concept of a Required Level for both conventional and non-conventional generation technologies to be met for the purposes of the return of Reserve Capacity Security (RCS), Reserve Capacity Testing and refunds. Ms Edmonds noted that the Required Level would be determined using a defined methodology for each facility:</p> <ul style="list-style-type: none"> <li>• certified under clause 4.11.1(a);</li> <li>• certified under clause 4.11.2(b), which the IMO anticipates will be primarily Intermittent Generators; and</li> <li>• Curtailable Loads and DSM Programmes.</li> </ul> <p>Ms Edmonds noted that in determining the Required Level to be met by Intermittent Generators the IMO had sought the views of its panel of experts and met with key stakeholders. Ms Edmonds clarified that the proposed methodology was to determine the Required Level for Intermittent Generators based on the 95 percentile of peak training intervals provided in the 3 year production duration output report under clause 4.10.3.</p> <p>The Chair opened up the floor for questions. Mr MacLean queried the use of the term “95 percentile”, suggesting that the measurement was actually the “5 percentile”. There was some discussion about whether the meaning of the term was clear or if “95 percentile” was open to multiple interpretations. Mr Forward proposed that “95 percentile” be replaced by “5% Probability of Exceedance (POE)” in the proposed amendments. Mr MacLean was agreeable to this proposal.</p> <p>Mr MacLean questioned whether the panel of independent experts had all understood the IMO’s intended meaning for the term “95 percentile”. Mr Ben Williams considered that this had been the case. The Chair advised that the IMO would confirm that the experts had a common understanding of the meaning of the term.</p> <p><i>Action Point: The IMO to confirm that the industry experts consulted about the Reserve Capacity Security Rule Change Proposal (PRC_2010_12) had a common understanding of the term “95 percentile”.</i></p> <p><i>Action Point: The IMO to update the proposed amendments in the Reserve Capacity Security Rule Change Proposal (PRC_2010_12) to use the term “5% Probability of Exceedance (POE)” instead of “95 percentile”.</i></p>	<p><b>IMO</b></p> <p><b>IMO</b></p>



Item	Subject	Action
	<p>Mr MacLean also questioned whether the Required Level was always achievable or whether a wind generator could conceivably not reach this level during a year. Mr Williams responded that the IMO had undertaken some modelling using available wind farm data and that generators had always been able to exceed their highest ever Required Level at least twice in any year.</p> <p>There was some discussion about the proposed Required Level calculations. Mr Williams clarified that for wind generators the Required Level would be the 95 percentile of the estimated 3 year production output duration curve, not 95 percent of the nameplate capacity.</p> <p>Mr Dykstra noted that currently RCS for an Intermittent Generator was only returned at the end of the Capacity Year, and questioned whether the proposal allowed for an earlier return of RCS. Mr Forward agreed that this was the case, noting that this was agreed by the MAC during the May 2010 MAC meeting.</p> <p>Mr Dykstra stated that he was not sure why a generator should have to meet the 95 percentile level, asking why a developer that installs an Intermittent Generation Facility should have to take risks on security. The Chair responded that a normal generator is expected to demonstrate that it can meet its capacity obligations. Mr Dykstra agreed, but noted that a Scheduled Generator has control over the level of its output. The Chair considered that the proposal represented a concession to generators allowing the early return of their RCS, but that generators would still need to demonstrate their capability.</p> <p>Mr Dykstra questioned whether the 95 percentile test could be used to facilitate an early return of RCS to Intermittent Generators while still retaining the current provisions for the return of RCS at the end of a Capacity Year. Mr Forward and Mr Williams explained that the proposal brought the treatment of an Intermittent Generator into alignment with that of a Scheduled Generator, in that its RCS would be returned early if it achieved 100 percent of its Required Level or at the end of the Capacity Year if it reached 90 percent of its Required Level.</p> <p>Mr Cremin suggested an alternative approach, whereby the RCS for an Intermittent Generator would be returned once an independent engineer had confirmed that the equipment was installed. Mr Forward noted that it was possible for equipment to be installed but not working, and considered that the IMO needed a way to check the operation of the Facility, not just the installation.</p> <p>Mr Forward noted that the IMO was attempting to standardise the approach used in the assessment of Reserve Capacity throughout the Market Rules by introducing a common concept of Required Level for the purposes of the return of RCS, Reserve Capacity Testing and determining the capacity refunds to apply for an Intermittent Generator. Mr John Rhodes referred to Point 8 of the expert report provided by MMA, suggesting that the IMO was proposing to use different methodologies for certification (average output) and Required Level determination for Intermittent Generators (peak output). Mr Dykstra noted that the MMA report had referred to the IMO's proposed approach as "novel" and had suggested a post implementation review at</p>	

Item	Subject	Action
	<p>some point in the future. Ms Edmonds noted that MMA had also considered that the concept provided a practical approach to addressing the issues.</p> <p>Mr Cremin considered that he would not like to see the 95 percentile approach applied to DSM. Ms Edmonds confirmed that the 95 percentile concept was only applicable to facilities certified under clause 4.11.2(b) and that a separate methodology was proposed to determine the Required Level for Curtailable Loads and DSM programmes.</p> <p>Mr MacLean noted that the IMO's proposal allowed Intermittent Generators to recover their RCS earlier, but considered that the problem was that people did not understand the details. Mr Forward offered to provide some more detail about the proposal at the next MAC meeting. Mr Dykstra expressed a concern that an Intermittent Generator might never have their RCS returned under the proposal. The Chair advised that the IMO would come back to the MAC with more detail and examples of the proposal.</p> <p><i>Action Point: The IMO to give a presentation to the MAC providing more detail on the proposed use of Required Levels for determination of eligibility for the return of Reserve Capacity Security.</i></p> <p>Mr MacLean questioned whether the proposed Glossary definition of Commercial Operation should refer to the Reserve Capacity Market Procedure, on the basis that a higher level document should not contain a definition that is contained in a lower level document. The Chair advised that the issue would be addressed.</p> <p><i>Action Point: The IMO to update the proposed Glossary definition of Commercial Operation in the Reserve Capacity Security Rule Change Proposal (PRC_2010_12) to remove the specific reference to the Reserve Capacity Market Procedure.</i></p> <p>Mr Huxtable noted the proposed introduction of Civil Penalties for failures to provide RCS as required by clauses 4.13.3 and 4.13.4. Mr Huxtable questioned whether a Market Participant would be able to identify a change to their bank's Acceptable Credit Criteria status in time to avoid incurring a Civil Penalty. Mr Williams responded that the onus on a Market Participant to provide appropriate security was a wider issue in the Market Rules.</p> <p>Mr Forward asked Mr Huxtable if he could suggest an alternative approach. The Chair suggested that the issue be taken off-line, but considered that there was no reason why the onus should not fall on the Market Participant and that if a provider lost its Acceptable Credit Criteria status then the onus should be on the Market Participant to replace the security within some reasonable period of time. Mr Huxtable repeated that he was worried about how a Market Participant could detect a status change in time, particularly as the Civil Penalties would begin to apply from Day 1.</p> <p><i>Action Point: The IMO to investigate the potential Civil Penalty issue faced by a Market Participant whose bank's Acceptable Credit Criteria status changes, as part of its work on the Reserve Capacity Security Rule Change Proposal (PRC_2010_12).</i></p> <p>Dr Gould raised a query about the return of RCS that is not in the form of a cash deposit. Mr Williams committed to ensure that the return of this type of</p>	<p>IMO</p> <p>IMO</p> <p>IMO</p>

Item	Subject	Action
	<p>RCS was covered in the proposed amendments.</p> <p><i>Action Point: The IMO to confirm that the Reserve Capacity Security Rule Change Proposal (PRC_2010_12) covers the mechanism for changes to the amount of Reserve Capacity Security required when these amounts are in the form of non-cash deposits.</i></p>	IMO
8a	<p><b>MARKET PROCEDURE CHANGE OVERVIEW</b></p> <p>The MAC noted the overview of recent and upcoming procedure changes.</p>	
9a	<p><b>WORKING GROUP OVERVIEW AND MEMBERSHIP UPDATES</b></p> <p>The MAC noted the Working Group overview and membership updates.</p> <p><i>Action Point: The IMO to update the ToR for the IMO and SM Procedure Change Working Groups on its Website.</i></p>	IMO
9b	<p><b>REGWG UPDATE</b></p> <p>Mr Dykstra noted the recommendation in the REGWG update paper for the MAC to accept the interim Work Package 1 report as final. Mr Dykstra noted that this report was yet to be approved by the REGWG, which was meeting the following day. The Chair agreed that the recommendation for MAC approval of the report was premature.</p> <p>The MAC noted the update on the REGWG work packages, albeit with the exception of approving the interim Work Package 1 report as final.</p>	
9c	<p><b>MRCPWG UPDATE</b></p> <p>In response to a question from Mr Dykstra, Mr Forward confirmed that the IMO would be updating the Scope of Works (for the review of the WACC and the review of deep connection costs) to incorporate the comments of the MRCPWG. The IMO intended to present the revised documents to the MRCPWG for further comment.</p> <p>Mr Forward stated that he had considered Mr Dykstra's comments about the WACC and would be discussing them further with the MRCPWG. Mr Forward suggested that the MAC should only note the update and ignore the second recommendation contained in the MRCPWG update paper.</p> <p>The MAC noted the overview of the MRCPWG progress to date.</p>	
10a	<p><b>CURTAILABLE LOADS – RELEVANT DEMAND ANALYSIS</b></p> <p>Mr Forward noted that the IMO had presented an issues paper on Curtailable Loads at the May 2010 MAC meeting. One of the outstanding issues from that meeting was the method to be used for the measurement of the Relevant Demand (RD) level of a Curtailable Load. Since the May 2010 meeting the IMO had undertaken an additional analysis of the measurement options with the assistance of DAA. Mr Forward asked Mr Williams to present the results of this analysis.</p> <p>Mr Williams provided an overview of how Relevant Demand is used in the</p>	

Item	Subject	Action
	<p>measurement of Curtailable Load performance and how it is determined under the current Market Rules. Mr Williams noted that DAA had been asked to look at several proposed methodologies for the calculation of Relevant Demand. The purpose of the analysis was to devise a methodology that was both stable (in that the same Facilities would receive similar RDs year on year) and reliable (in that the RD accurately represented the actual capacity that a Facility would be able to provide at the time of peak demand).</p> <p>DAA found that as more intervals were used in the calculations the RDs became more stable but less reflective of the available capacity at peak times. The most reliable indicator was found to be the Individual Reserve Capacity Requirement (IRCR) method (i.e. the median of 12 Peak Trading Intervals for each Hot Season), while the current method was found to produce the second least reliable results.</p> <p>Mr Williams noted that DAA had also been asked to compare the current RD calculation technique (summing the RDs for individual Loads) with the proposed technique whereby a single RD would be calculated using the aggregated Load of a DSM Programme. DAA found no significant difference between the two techniques.</p> <p>Mr Williams noted that the IMO's recommendation was to use the IRCR method of calculation, applied to the aggregated load of a DSM Programme.</p> <p>Mr Dykstra questioned whether Curtailable Loads would be dispatched at the Programme level or at the individual Load level. Mr Williams and Mr Ken Brown replied that it had been agreed previously that it would be better for System Management to dispatch at the DSM Programme level. Mr Dykstra sought further detail on how the dispatch process would work. Mr Brown confirmed that System Management would issue a Dispatch Instruction in respect of the DSM Programme, and that it was up to the DSM Provider to manage how individual Loads were dispatched.</p> <p>Mr Rhodes queried whether Recommendation 3 implied that details of all the underlying facilities in a DSM Programme would need to be uploaded into the WEMS. Mr Williams replied that the IMO might need to see evidence of individual contracts, and would definitely need the NMIs of the contributing loads for Relevant Demand assessment. Mr Forward noted that the original Reserve Capacity registration was for the DSM Programme as a whole, while the Relevant Demand assessment would consider all the NMIs in the Programme.</p> <p>Mr Rhodes queried how it would be possible to assess Relevant Demand if the individual loads were not known. Mr Williams repeated that the original capacity certification was not performed at the NMI level, and that a Relevant Demand assessment did not need to be made at the time of the original certification. In response to a question from Mr MacLean, Mr Forward confirmed that a DSM Provider would still be able to contract customers and register those facilities to provide DSM after the certification window closes through to the commencement of the relevant Capacity Year.</p> <p>Mr Huxtable queried how Curtailable Load would be managed for the upcoming Capacity Year. Mr Forward noted that there was currently a great deal of uncertainty around Curtailable Loads, and that Mr Williams would be</p>	

Item	Subject	Action
	<p>working with DSM Providers on this matter.</p> <p>Mr Williams raised the issue of new loads without at least one year of historical interval data. Mr Williams noted that such loads would need to be considered, but suggested that they might be excluded from participation in a DSM Programme.</p> <p>Mr Williams discussed the first issue outlined in the analysis paper, which was that a Curtailable Load conducting maintenance over peak intervals could obtain a reduction in its IRCR while maintaining a high RD level. The MAC agreed with Recommendation 2 of the analysis paper, i.e. that the exclusion due to maintenance in clause 4.26.2C(d) of the Market Rules should be removed.</p> <p>Mr Sutherland noted that the dispatch of a Curtailable Load resulted in both a Dispatch Instruction Payment to the DSM Provider and an MCAP payment to the relevant retailer for the load reduction. Mr Sutherland considered that this could be another case of double dipping. Mr Forward advised that the IMO would look into this issue.</p> <p><i>Action Point: The IMO to investigate the potential double dipping issue regarding Dispatch Instruction and energy payments for Curtailable Loads raised by Andrew Sutherland.</i></p> <p><i>Action Point: The IMO to develop a Pre Rule Change Discussion Paper to reflect the recommendations contained in the (Curtailable Load) Relevant Demand Analysis paper.</i></p>	<p><b>IMO</b></p> <p><b>IMO</b></p>
<b>10b</b>	<p><b>INFORMATION CONFIDENTIALITY PROJECT</b></p> <p>The MAC noted the update on the progress of the Information Confidentiality Project.</p>	
<b>11</b>	<p><b>IMO OPERATIONAL PLAN 2010/11</b></p> <p>The Chair advised that the IMO would circulate its Operational Plan for 2010/11 to MAC members for their information.</p> <p><i>Action Point: The IMO to circulate its Operational Plan for 2010/11 to MAC members.</i></p>	<b>IMO</b>
<b>12</b>	<p><b>GENERAL BUSINESS</b></p> <p>Mr Cremin queried whether MAC members were aware of the Ministerial Decision to waive the Capacity Cap Direction on Verve Energy for Muja A &amp; B. Mr Cremin noted that the Ministerial Decision had been tabled in Parliament on 9 July 2010. Mr Cremin queried whether any MAC members had been consulted about this decision, considering that it was a significant event for Independent Power Producers for the 3000 MW cap to be waived. The Chair offered to locate a copy of the Ministerial Decision and circulate it to MAC members.</p> <p><i>Action Point: The IMO to circulate a copy of the Ministerial Direction regarding the exemption from the Verve Energy Capacity Cap for Muja A&amp;B to MAC members.</i></p>	<b>IMO</b>

Item	Subject	Action
	<p>Mr Dykstra noted that 23 MW of DSM capacity had come into the market in August 2010. Mr Dykstra had thought that the provisions for capacity to enter the market early excluded DSM. Mr Dykstra considered that the intention behind the early entry provisions was to give generators time to settle and run in their plant, and that the provisions should not apply to Curtailable Loads, as this imposed an extra and unnecessary impost on the market.</p> <p>The Chair was unsure that the power to prevent the entry of one category of capacity was possible under the current Market Objectives. Mr Forward offered for the IMO to consider this issue as part of the Curtailable Load review.</p> <p><i>Action Point: The IMO to consider the appropriateness of early commissioning for DSM Programmes as part of its current review of Curtailable Loads.</i></p> <p>Mr Dykstra submitted that the length of the MAC papers was increasing and that this was making it difficult to find enough time to review the papers and discuss them internally. Mr Dykstra queried whether the windows for publication could be shifted to give MAC members more time to review the material. Mrs Papps responded that this would be difficult given the monthly timeframe for MAC meetings.</p> <p>Mr Dykstra then queried if it was possible to reduce the overall length of the MAC papers. Mr Forward noted that the IMO could not delay some of items included in MAC papers, for example Rule Change Proposals submitted by Market Participants. The Chair agreed with Mr Forward, noting that once the Rule Change Process had been triggered a proposal would generally need to be discussed by the MAC. The Chair noted that the current situation was unusual in terms of the number of projects (e.g. REGWG, Oates) coming to a head at the same time, but agreed that the IMO should try to reduce the volume as far as possible.</p> <p>Ms Ng noted that this would be her last MAC meeting, as she was moving to a new position within Verve Energy and so resigning from the MAC. Ms Ng thanked MAC members for their help and support during the period of her membership. The Chair thanked Ms Ng for the contribution she had made to the MAC.</p> <p>There was no other business raised.</p>	<b>IMO</b>
<b>13</b>	<p><b>NEXT MEETING</b></p> <p>Meeting No. 31 will be held on Wednesday 8 September 2010 (2:00-5:00pm).</p>	
<b>CLOSED:</b> The Chair declared the meeting closed at 5:28pm.		



## Agenda item 4: 2009/2010 MAC Action Points

### Legend:

<b>Shaded</b>	Shaded action points are actions that have been completed since the last MAC meeting.
<b>Unshaded</b>	Unshaded action points are still being progressed.
<b>Missing</b>	Action items missing in sequence have been completed from previous meetings and subsequently removed from log.

#	Action	Responsibility	Meeting arising	Status/Progress
59	The IMO to investigate whether it is able to strengthen the requirements for awarding Certified Reserve Capacity.	IMO	May	<p>The CRC pre rule change proposal will:</p> <ul style="list-style-type: none"> <li>• Ensure applicants submit a valid application for certification;</li> <li>• Not extend CRC awarded above levels documented from Western Power;</li> <li>• Limit certification of Non-Scheduled Generators to the 4.11.2(b) method by tightening “likely to be available” to “likely to be</li> </ul>

#	Action	Responsibility	Meeting arising	Status/Progress
				<p>available and able to be dispatched”; and</p> <ul style="list-style-type: none"> <li>State that information “must be supported by documented evidence where applicable”.</li> </ul>
62	The IMO to send a letter to the Office of Energy and the ERA on behalf of the MAC requesting the introduction of licensing obligations for DSM Providers.	IMO	May	Letter drafted. Awaiting the Pre-Rule Change Discussion Paper for Curtailable Loads. See the Curtailable Loads Project update paper on today's agenda.
63	The IMO to proceed with a Rule Change Proposal to allow a Market Participant other than a Market Customer to contract for the Reserve Capacity associated with a Curtailable Load.	IMO	May	Underway. See the Curtailable Loads Project update paper on today's agenda.
65	The IMO to investigate and report to the MAC on options for the selection of Discretionary Members of the MAC.	IMO	May	Underway. A draft report has been prepared. It is likely that a paper will be included on the October MAC meeting agenda.
78	System Management to further develop the details of option 3 for the future procurement of Spinning Reserve and Load Following and then provide an update to the MAC.	SM	June	
80	The IMO to update the wording of the MAC pathway decision to reflect the changes agreed by MAC members.	IMO	August	Completed.
81	The IMO to update the letter to the IMO Board Chairman to include the revised pathway decision.	IMO	August	Completed.
82	MAC members to review the list and provide the IMO with details of their assigned priorities to the remaining issues.	IMO	August	Completed.
83	The IMO to collate MAC member's responses on the prioritisation of issues for the first Rules Development Implementation Working Group (RDIWG) meeting.	IMO	August	Completed.



#	Action	Responsibility	Meeting arising	Status/Progress
84	The IMO to update the Terms of Reference and the membership structure for the RDIWG to reflect the points raised by the MAC.	IMO	August	Completed.
85	The IMO to publish the updated Terms of Reference for the RDIWG and call for nominations for membership.	IMO	August	Completed.
86	The IMO to amend the minutes of Meeting No. 29 to reflect the points raised by the MAC and publish on the website as final.	IMO	August	Completed.
87	The IMO to amend the minutes of Special Meeting No. 3 to reflect the points raised by the MAC and publish on the website as final.	IMO	August	Completed.
88	The Office of Energy to provide the IMO with a copy of its report on gas contingency service options for distribution to MAC members.	OoE	August	The IMO has requested this and will circulate it once received.
89	The IMO to distribute the report provided by the Office of Energy on gas contingency service options (action point 88) to MAC members.	IMO	August	See above.
90	The Office of Energy and Western Power to discuss the concerns relating to the future provision of Network Control Services and provide an update to the MAC at the September 2010 meeting.	OoE and WP	August	
91	The IMO to investigate potential settlement issues relating to NCS provision by generators supplying an Intermittent Load and lacking independent metering, and report back to the MAC with its findings.	IMO	August	Underway. The IMO will report back at the October MAC meeting.
92	Western Power and System Management to discuss the provision of NCS payment terms to System Management and advise the IMO whether the NCS Rule Change Proposal (PRC_2010_11) should be updated to remove the exclusion in proposed clause 5.3A.3.	WP and SM	August	
93	The ERA to consider the NCS Rule Change Proposal (PRC_2010_11) further and provide an update to the MAC at the September 2010 meeting.	ERA	August	
94	The IMO to update the NCS Rule Change Proposal (PRC_2010_11) to reflect the advice received from the OoE, Western Power and the ERA (action points 88, 90 and 91), and present the updated paper to the MAC.	IMO	August	Underway. The IMO will report back at the October MAC meeting.

#	Action	Responsibility	Meeting arising	Status/Progress
95	The IMO to confirm that the industry experts consulted about the Reserve Capacity Security Rule Change Proposal (PRC_2010_12) had a common understanding of the term “95 percentile”.	IMO	August	Completed. The industry experts have confirmed that it was there understanding that the 95 percentile equated to the 5% POE.
96	The IMO to update the proposed amendments in the Reserve Capacity Security Rule Change Proposal (PRC_2010_12) to use the term “5% Probability of Exceedance (POE)” instead of “95 percentile”.	IMO	August	Completed.
97	The IMO to give a presentation to the MAC providing more detail on the proposed use of Required Levels for determination of eligibility for the return of Reserve Capacity Security.	IMO	August	Completed. On the agenda for discussion at today's meeting.
98	The IMO to update the proposed Glossary definition of Commercial Operation in the Reserve Capacity Security Rule Change Proposal (PRC_2010_12) to remove the specific reference to the Reserve Capacity Market Procedure.	IMO	August	Completed.
99	The IMO to investigate the potential Civil Penalty issue faced by a Market Participant whose bank's Acceptable Credit Criteria status changes, as part of its work on the Reserve Capacity Security Rule Change Proposal (PRC_2010_12).	IMO	August	Investigation underway.
100	The IMO to confirm that the Reserve Capacity Security Rule Change Proposal (PRC_2010_12) covers the mechanism for changes to the amount of Reserve Capacity Security required when these amounts are in the form of non-cash deposits.	IMO	August	Underway. The IMO has drafted the proposed Amending Rules to cover the mechanism for changes to security held as a non-cash deposit. The IMO will seek an external legal review to confirm the proposed Amending Rules operate as anticipated prior to submission of the proposal into the formal process.
101	The IMO to update the ToR for the IMO and SM Procedure Change Working Groups on its Website.	IMO	August	Complete.
102	The IMO to investigate the potential double dipping issue regarding Dispatch Instruction and energy payments for Curtailable Loads raised by Andrew Sutherland.	IMO	August	Investigation underway.

#	Action	Responsibility	Meeting arising	Status/Progress
103	The IMO to develop a Pre Rule Change Discussion Paper to reflect the recommendations contained in the (Curtable Load) Relevant Demand Analysis paper.	IMO	August	Underway. See the Curtable Loads Project update paper on today's agenda.
104	The IMO to circulate its Operational Plan for 2010/11 to MAC members.	IMO	August	Completed. Circulated 24 August 2010.
105	The IMO to circulate a copy of the Ministerial Direction regarding the exemption from the Verve Energy Capacity Cap for Muja A&B to MAC members.	IMO	August	Completed. Circulated 24 August 2010.
106	The IMO to consider the appropriateness of early commissioning for DSM Programmes as part of its current review of Curtable Loads.	IMO	August	



## Agenda Item 5a: Overview of Market Rule Changes

Below is a summary of the status of Market Rule Changes that are either currently being progressed by the IMO or have been registered by the IMO as potential Rule Changes to be progressed in the future.

Rule changes: Formally submitted (see appendix 1)	1 September 2010
Fast track with Consultation Period open	1
Standard Rule Changes with 1st Submission Period Open	1
Fast Track Rule Changes with Consultation Period Closed (final report being prepared)	0
Standard Rule Changes with 1st Submission Period Closed (draft report being prepared)	1
Standard Rule Changes with 2nd Submission Period Open	1
Standard Rule Changes with 2nd Submission Period Closed (final report being prepared)	4
Rule Changes - Awaiting Minister's Approval and/or Commencement	2
<b>Total Rule Changes Currently in Progress</b>	<b>10</b>

Potential changes logged by the IMO- Not yet formally submitted	July	August
High Priority (to be formally submitted in the next 3/6 months)	0	0
Medium Priority (may be submitted in the next 6/12 months)	22	22 (+1)
Low Priority (may be submitted in the next 12/18 months)	26	27 (+1)
<b>Potential Rule Changes (H, M and L)</b>	<b>48</b>	<b>49</b>
Minor and typographical (submitted in batches three times per year)	37	9 (+2/-30)
<b>Total Potential Rule Changes</b>	<b>85</b>	<b>58</b>

The changes in the rule change and issues log (from July to August) has arisen from:

Priority	What	Status
High	N/a	N/a
Medium	N/a	N/a
Low	<ul style="list-style-type: none"> <li>The Reserve Capacity Performance Monitoring report (clauses 4.27.2 and 4.27.3) refers to capacity not made available. Currently this monitoring only takes into account Planned Outages. Opportunistic Maintenance, Consequential Outages and Forced Outages are not taken into account. The IMO needs to consider whether to incorporate more than Planned Outages in Reserve Capacity Performance Monitoring.</li> </ul>	On the Rule Change and Issue Log.

## APPENDIX 1: FORMALLY SUBMITTED RULE CHANGES

### Fast Track Rule Change with Consultation Period Open

ID	Date submitted	Title	Submitter	Next Step	Date
<a href="#">RC 2010_23</a>	03/08/2010	Consequential Outage – Relief from capacity refund and unauthorised deviation penalties	Alinta	Consultation period ends	22/09/2010

### Standard Rule Change with First Submission Period Open

ID	Date submitted	Title	Submitter	Next Step	Date
<a href="#">RC 2010_24</a>	03/08/2010	Adjustment of Relevant Level for Intermittent Generation Capacity	Alinta	Submission period ends	20/09/2010

### Standard Rule Change with First Submission Period Closed

ID	Date submitted	Title	Submitter	Next Step	Date
<a href="#">RC 2010_08</a>	15/04/2010	Removal of DDAP uplift when less than facility minimum generation	Griffin Energy	Publish Draft Change Report	Rule 17/12/2010

### Standard Rule Change with Second Submission Period Open

ID	Date submitted	Title	Submitter	Next Step	Date
<a href="#">RC 2010_06</a>	27/04/2010	Application of Spinning Reserve to Aggregated Facilities	Griffin Energy	Submission period ends	09/09/2010

### Standard Rule Change with Second Submission Closed

ID	Date submitted	Title	Submitter	Next step	Date
<a href="#">RC 2009_37</a>	14/05/2010	Equipment Tests	System Management	Publish Final Change Report	Rule 17/09/2010
<a href="#">RC 2010_04</a>	07/04/2010	Settlement in Default Situations	IMO	Publish Final Change Report	Rule 17/09/2010
<a href="#">RC 2010_10</a>	17/05/2010	Bilateral Submission Window	Verve Energy	Publish Final Change Report	Rule 17/09/2010
<a href="#">RC 2010_15</a>	18/05/2010	MAC Membership Review	Perth Energy	Publish Final Change Report	Rule 28/09/2010

### Standard Rule Change with Final Report Published

ID	Date submitted	Title	Submitter	Next Step	Date
<a href="#">RC 2009_08</a>	21/04/2009	Updates to Commissioning Provisions	IMO	Commencement	01/01/2011

ID	Date submitted	Title	Submitter	Next Step	Date
<a href="#">RC 2009 22</a>	15/10/2009	The use of tolerance levels by System Management	System Management	Commencement	01/11/2010



---

## Agenda Item 5b: Required Level and Reserve Capacity Security (PRC\_2010\_12)

### 1. BACKGROUND

At the 11 August 2010 MAC meeting the IMO presented the Pre Rule Change Discussion Paper: Required Level and Reserve Capacity Security (PRC\_2010\_12) for discussion. During the meeting the IMO agreed to provide a presentation on how the IMO would calculate the Required Level for Intermittent Generators. This presentation is on the agenda for today's meeting.

Additionally during the 11 August meeting the IMO agreed to:

- Clarify that Required Level for Intermittent Generators will be based on the 5 percent probability of exceedance (95 percent confidence interval);
- Update the definition of Commercial Operation to remove the reference to the Reserve Capacity Market Procedure; and
- Confirm that the proposed Amending Rules will allow for required changes to the amount of Reserve Capacity Security when these amounts are held in the form of non-cash deposits;

The IMO has consequently updated the Pre Rule Change Discussion Paper to incorporate these points. Note that the IMO also intends to contract an external party to undertake a legal review of the proposed Amending Rules with regard to the return of cash and non-cash deposits.

### 2. RECOMMENDATIONS

The IMO recommends that the MAC:

- **Note** that the IMO has made the agreed changes to PRC\_2010\_12; and
- **Endorse** the IMO formally submitting PRC\_2010\_12 as a Rule Change Proposal.

---

## Agenda item 5b

### Wholesale Electricity Market Pre Rule Change Discussion Paper

---

**Change Proposal No:** PRC\_2010\_12  
**Received date:** TBA

#### Change requested by

<b>Name:</b>	Troy Forward
<b>Phone:</b>	(08) 9254 4300
<b>Fax:</b>	(08) 9254 4399
<b>Email:</b>	jacinda.papps@imowa.com.au
<b>Organisation:</b>	Independent Market Operator
<b>Address:</b>	Level 3, Governor Stirling Tower, 197 St George's Terrace
<b>Date submitted:</b>	TBA
<b>Urgency:</b>	Medium
<b>Change Proposal title:</b>	Required Level and Reserve Capacity Security
<b>Market Rules affected:</b>	Clauses 4.1.21, 4.1.27, 4.9.9, 4.13.1, 4.13.2, 4.13.3, 4.13.10, 4.13.10A, 4.13.11, 4.13.11A, 4.13.12, 4.25.2, 4.25A.3, 4.26.1, 4.28C.8, 4.28C.12 and new clauses 4.11.2A, 4.11.3B, 4.13.1A, 4.13.1B, 4.13.2A, 4.13.2B, 4.13.3A, 4.13.10B, , 4.13.13, 4.13.14, 4.13.15, 4.28C.8A, 4.28C.12A and the Glossary.

---

## Introduction

Clause 2.5.1 of the Wholesale Electricity Market Rules (Market Rules) provides that any person (including the Independent Market Operator (IMO)) may make a Rule Change Proposal by submitting a completed Rule Change Proposal form to the IMO.

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

#### **Independent Market Operator**

Attn: Manager Market Development and System Capacity  
 PO Box 7096  
 Cloisters Square, Perth, WA 6850

Fax: (08) 9254 4339

Email: market.development@imowa.com.au

The IMO will assess the proposal and, within five 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 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. Describe the concern with the existing Market Rules that is to be addressed by the proposed Market Rule change:**

#### **Background**

When a Market Participant has committed to the development of a new Facility, or a Facility upgrade, the Wholesale Electricity Market (WEM) Rules (Market Rules) require the Market Participant to provide Reserve Capacity Security in respect of the Facility. This security is required after either:

- the Bilateral Trade Declaration for the Facility is made – if the Market Participant indicates that it intends to bilaterally trade the Certified Reserve Capacity (CRC) associated with the Facility; or
- at the time the Reserve Capacity Auction Offer for the Facility is made – if the CRC is to be offered into the Reserve Capacity Mechanism through the Reserve Capacity Auction process.

The Market Rules require Market Participants to provide a Reserve Capacity Security for a new Facility or upgrade to an existing Facility due to the greater delivery risk associated with the unproven capacity. Currently the IMO holds in excess of \$24 million dollars in Reserve Capacity Security.

Clause 4.13.10 of the Market Rules outlines that the Reserve Capacity Security is no longer required once:

- The Reserve Capacity Obligations commence; and
- The Facility has operated at 100 percent of its Reserve Capacity Obligation Quantity (RCOQ) for one Trading Interval within the Reserve Capacity Year. In this case the requirement ceases immediately, subject to a processing period; or
- The Facility has demonstrated that it has operated to a level of at least 90 percent (but not 100 percent) of its RCOQ within the Reserve Capacity Year. In this case the requirement for Reserve Capacity Security ceases following the end of the Reserve Capacity Year.

Note: if the Facility has an RCOQ of zero, the Reserve Capacity Security is to be returned at the end of the Reserve Capacity Year.

If a Facility fails to satisfy the obligations specified in clause 4.13.10 during the Reserve Capacity Year the Reserve Capacity Security is first used to fund any Supplementary Reserve Capacity required in that year, with the remainder distributed to Market Customers proportional to their Individual Reserve Capacity Requirement level.

## Issues

After a comprehensive review of the administration of Reserve Capacity Security a number of issues with the process have been identified. These issues have been further highlighted as new and diverse facilities have begun commissioning and started to participate in the WEM. Additionally, the recent failure of some Market Participants to meet their obligations has brought these issues to the forefront.

A paper outlining these issues was presented to the Market Advisory Committee (MAC) at its 12 May 2010 meeting. In preparing this Pre Rule Change Discussion Paper, the views expressed by the MAC have been taken into account.

Reserve Capacity Security related issues have also been identified for the treatment of Demand Side Programmes, Load Reduction Curtailable Loads and Stipulated Default Loads. These issues will be addressed in a separate Rule Change Proposal regarding Curtailable Loads to be presented later this year.

Finally, there is no civil penalty currently associated with the failure to provide Reserve Capacity Security as required by clauses 4.13.3 and 4.13.4. The IMO considers that a contravention of these clauses should attract a civil penalty. For example, consider a Reserve Capacity Security provided by means of a Bank Undertaking from Bank X. If Bank X's Acceptable Credit Criteria status changes the obligation to provide the new Reserve Capacity Security is with the Market Participant. If the Market Participant fails to update the Bank Undertaking then currently no civil penalty will apply.

The IMO will work with the Office of Energy to include these as civil penalty provisions in the Electricity (Wholesale Electricity Market) Regulations 2004. The IMO will recommend that the civil penalties associated with the failure to provide Reserve Capacity Security mirror those associated with the failure to provide Credit Support (clauses 2.38.2 and 2.38.3 of the Market Rules). These are both Category B civil penalty provisions and are set at:

- First contravention: \$25,000 plus a daily amount of \$5,000; and

- Subsequent contraventions: \$50,000 plus a daily amount of \$10,000.

### ***Issue 1: Treatment of Facilities once the first Reserve Capacity Cycle has lapsed***

Currently the Market Rules are ambiguous as to whether it is necessary to maintain Reserve Capacity Security after the end of the first Reserve Capacity Cycle. In particular, clause 4.13.1 and 4.1.13 require that Market Participants with Facilities that have been assigned Certified Reserve Capacity by the IMO provide Reserve Capacity Security to the IMO in August of Year 1 of the relevant Reserve Capacity Cycle. The Market Rules are silent as to whether this requirement is repeated for every Reserve Capacity Cycle that the Certified Reserve Capacity appears in for new capacity.

The practice since market start has been to only require Reserve Capacity Security to be provided for the first Reserve Capacity Cycle regardless of whether the Certified Reserve Capacity was delivered in full, partially or not at all.

#### **Proposed Solution**

Clause 4.13.1, in conjunction with the proposed new clauses 4.13.1A and 4.13.1B, has been amended to remove any doubt and clearly state that Reserve Capacity Security is to either be returned to the Market Participant or forfeited within the first Reserve Capacity Cycle and that no further Reserve Capacity Security obligation will apply to that Certified Reserve Capacity thereafter, unless a Market Participant decides to upgrade the Facility at a later date.

Clause 4.13.3 has also been amended to clarify that replacement Reserve Capacity Security is only required if the obligation to provide security extends beyond the period of the validity of the current security. For example, it would not be necessary to provide a replacement security if the existing security happens to expire a day after the end of Year 4 of the first Reserve Capacity Cycle for which the Market Participant applied for certification.

### ***Issue 2: Treatment of Intermittent Facilities***

Clause 4.13.11A (via a reference to clause 4.13.11) stipulates that the Reserve Capacity Security provided will be forfeited for Facilities that cannot, at least once during the Capacity Year, operate at least at 90 percent of the RCOQ level, in a Trading Interval when the RCOQ for that Facility is greater than zero. Intermittent Facilities have an RCOQ level of zero at all times and it is therefore impossible for them to meet the requirements of clause 4.13.11A.

At the same time, clause 4.13.10(c), stipulates that the Facilities captured by that clause (which applies to Intermittent Facilities) should have their securities returned by the end of the Reserve Capacity Cycle irrespective of performance. This is in contrast to the requirements under clause 4.13.11A.

As agreed at the May 2010 MAC meeting, all Facilities (conventional and non-conventional) should be entitled to receive their Reserve Capacity Security back when they can prove to the IMO that they can perform to the level at which their certification is based.

#### **Proposed Solution**

It is prudent to develop a criterion for the return of Reserve Capacity Security which would ensure consistent treatment of all generation types but at the same time take into account each generation type's unique characteristics (in particular Intermittent Generators). The IMO proposes to define a level of output a Facility is required to perform at (the "Required Level" outlined in new clause 4.13.10). The Required Level for each Facility type will be calculated by the IMO as follows:

- for Facilities assigned CRC under clause 4.11.1(a), using the Metered Schedule and Temperature Dependence Curves submitted to the IMO under clause 4.10.1(e)i. and converted to a sent out basis at 41 °C;
- for Facilities assigned CRC under clause 4.11.2(b), using either the:
  - a value which equals the 5 percent probability of exceedance (POE) of the 3-year expected peak output for the Facility, expressed in MW, provided to the IMO under clause 4.10.3; or
  - in the case where the value which equals the 5 percent POE is not considered to be appropriate by the IMO, an alternative value, expressed in MW, to that identified in the report provided under clause 4.10.3; and
- Curtailable Loads and Demand Side Management Programmes, using the Facility's Relevant Demand minus Capacity Credits assigned to that Facility.

Note that a Facility will also be required to operate at the Required Level for a specified number of Trading Intervals (two for the purposes of the return of Reserve Capacity Security) and also be in Commercial Operation. For a Traditional Facility, CRC is assigned on a Facility's ability to meet a specified output level during a Capacity Year. However, a Facility assigned CRC under 4.11.2(b) would be certified based on an average output over a three year period, with no assumptions about output being achieved in consecutive intervals. Therefore for the purposes of the return of Reserve Capacity Security the intervals at which the Required Level must be achieved need not be consecutive. Under the IMO's proposed amendments a Facility will be required to meet a Required Level which mirrors the basis on which it was assigned CRC.

The IMO proposes to define the term "Commercial Operation" in the Market Rules and the considerations that will taken into account in making its decision as to whether a Facility meets the criteria to be deemed in Commercial Operation. Further details will be specified in the Market Procedure for Reserve Capacity Security (see Appendix 1 of this proposal for further details). The IMO will also include details of its basis for determining whether an alternative value to the 5 percent POE should be accepted in the Market Procedure for Reserve Capacity Security.

In determining the Required Level to be met for Facilities assigned CRC under clause 4.11.2(b) (mainly Intermittent Generators), the views of the IMO's panel of independent experts were sought on:

- the appropriate number of Trading Intervals an Intermittent Facility should meet the Required Level for; and
- how to set the value for the Required Level for an Intermittent Facility.

Further details of this advice provided by Senergy Econnect and McLennan, Magasanik and Associates (MMA) are presented in Appendix 2 of this proposal. The IMO met with a number of key stakeholders while developing the proposed basis for calculating the Required Level for Intermittent Generators. The concerns expressed by these stakeholders have, where possible, been taken into account in developing this methodology.

Based on the advice received, using the 5 percent POE of the 3 year expected peak output will accurately represent the maximum output that a Facility should be able to achieve in at least two Trading Intervals over the year. For example, the use of the 5 percent POE percentile will not subject a wind farm to the risk that the wind does not blow (at least to the extent of achieving 90 percent of the Required Level).

In the case where an independent expert does not consider that the value corresponding to the 5 percent POE will be appropriate for a Facility, an alternative value may be proposed to the IMO for consideration when setting the Required Level (Clause 4.10.3(b)). The IMO will advise Market Participants of the Required Level that has been set for each of its Facilities certified under clause 4.11.2(b) following its determination (amended clause 4.9.9).

The introduction of a Required Level to be met by each type of generation will ensure equitable treatment of both conventional and non-conventional technologies. Clause 4.13.10 will be amended to refer to the 90 percent test having been achieved within the relevant Capacity Year, as previously contained in clause 4.13.11. New clause 4.13.13 will specify the requirements for the 100 percent test, as previously contained in clause 4.13.10. Both of these clauses will also be amended to specifically set out the requirement for a Facility to operate at its Required Level, as scaled to its level of Capacity Credits as assigned for the Capacity Year, for at least two Trading Intervals before its Reserve Capacity Security may be returned. The requirement to scale the Required Level to the level of Capacity Credits assigned for the Capacity Year will ensure that if the Capacity Credits for the Facility are reduced by the IMO (e.g. following a test) these will not be taken into account in determining whether Reserve Capacity Security can be returned.

#### *Reserve Capacity Testing and refunds*

The concept of a Required Level will be also used for the purposes of Reserve Capacity Testing and Reserve Capacity refunds. Clause 4.26.1 will be amended to link the IMO's decision that an Intermittent Facility is commissioned to when it has met 100 percent of its Required Level. This will be as scaled to the level of Capacity Credits assigned for the Capacity Year, in at least two Trading Intervals and is considered by the IMO to be in Commercial Operation. Further details of this proposed change and the introduction of partial commissioning of Intermittent Generators are discussed in issue 2.2.

Note that the IMO proposes to scale the Required Level for the purposes of Reserve Capacity Testing to the level of Capacity Credits assigned to the Facility. By using the dynamic level of Capacity Credits, the level of Capacity Credits as amended by the IMO following any previous tests will be taken into account when undertaking any Reserve Capacity Testing. This proposal does not amend the requirement to meet the Required Level for at least one Trading Interval.

#### ***Issue 3: Timing for return of Reserve Capacity Security***



The earliest opportunity for a Market Participant to prove it can meet its capacity obligations and request the IMO to return the associated Reserve Capacity Security is once a RCOQ exceeding zero applies to the Facility (e.g. from 1 July in Year 3). Currently early commissioning of a Facility (which is allowed for under the Market Rules) does not entitle the Market Participant to have its Reserve Capacity Security returned earlier than the first date that the RCOQ's apply. The IMO considers that this treatment places an unnecessary financial burden on early commissioning Facilities.

#### *Proposed Solution*

As with the solution to issue 2.1, the IMO proposes that the Market Rules be amended (clause 4.13.10) to introduce the concept of a Required Level and allow for the return of the Reserve Capacity Security when a Facility can operate at this level and is considered by the IMO to be in Commercial Operation regardless of whether this occurs before or after an RCOQ greater than zero applies (clause 4.13.10 and new clause 4.13.13).

#### ***Issue 4: Treatment of upgraded Facilities***

A Market Participant will be required to provide Reserve Capacity Security when it undertakes an upgrade of an existing facility (clause 4.13.1). However, for the purposes of determining whether to return any security, it is currently unclear how the IMO would assess that part of a Facility has performed at its Required Level (either 100 percent or 90 percent) where the upgrade is not independent of the rest of the plant.

It is particularly the application of the 90 percent requirement in clause 4.13.11 (to be amended to clause 4.13.10(c)) that presents difficulties with regard to upgraded Facilities. For example consider a Market Participant who upgrades its previous 100MW Facility by installing inlet cooling and increasing the output of the facility to 120MW. Currently it is unclear whether the Required Level of output for the return of any Reserve Capacity Security should be at:

- 118 MW (the existing 100MW Facility and 90 percent of upgrade);
- 108 MW (90 percent of the existing 100MW Facility and 90 percent of the upgrade);  
or
- 108 MW (90 percent of the Facility as a whole).

#### *Proposed Solution*

As agreed at by the MAC, the Market Rules will be amended to clarify that, for the purposes of returning Reserve Capacity Security held for upgrades to Facilities, those Facilities as a whole must pass the relevant test in clause 4.13.13 (the 100 percent test) or clause 4.13.10 (the 90 percent test).

#### ***Issue 5: Treatment of Early Certification of Capacity***

On 1 February 2010 the Rule Change Proposal "Early Certified Reserve Capacity" (ECRC) (RC\_2009\_10) was implemented. This provided an avenue to allow potential Reserve Capacity providers to certify capacity earlier than was previously possible under the Market Rules. The changes to the Market Rules were implemented via new clause 4.28C.



Following implementation of RC\_2009\_10 the following additional amendments to section 4.28C have been identified, including:

- Splitting clause 4.28C.8 (Reserve Capacity Security for ECRC) into two clauses. This will ensure consistency with the current drafting of clause 4.13.9 and uniformity in treatment between capacity that enters the market via the ECRC provisions and capacity that enters the market via the “normal” route. New clause 4.28C.8A will state that if a Market Participant does not comply with clause 4.28C.8 in full by the time specified in clause 4.28C.8, the ECRC assigned to that Facility will lapse.
- Clause 4.28C.12 deals with the transition of early Reserve Capacity Security provisions and Reserve Capacity Obligations to the starting point of the normal certification and security provisions. To ensure consistency in treatment of all capacity, ECRC should be subject to the same requirements as capacity that enters the system via the normal process from this point forward (i.e. the time and date specified in clause 4.1.14(a)).
- Amending the wording of clause 4.28C.12 to clarify that it is the IMO’s responsibility to perform the calculation to determine whether the Reserve Capacity Security amount should be adjusted. The current wording only stipulates that a calculation must take place, without firmly identifying the party responsible for the calculation.
- If the calculation in 4.28C.12 results in a reduction in a Market Participant’s required level of Reserve Capacity Security there is currently no explicit obligation for the IMO to return any excess Reserve Capacity Security within a stipulated timeframe. This part of the Market Rules should be consistent with the provisions that apply to capacity that is certified via the standard process. Therefore, a change is proposed to explicitly mandate that in the case when the calculation in 4.28C.12 results in a reduction in Reserve Capacity Security, any excess held by the IMO must be returned within 10 Business Days in accordance with clause 4.13.10A. This will ensure consistency with the provisions in clause 4.13.10A.
- There are a number of provisions in clause 4.13 that apply to “normal” capacity and the security for that capacity that were not mirrored in the drafting of clause 4.28C. To ensure consistency in the treatment of ECRC and “normal” capacity the following clauses from section 4.13 will also apply to ECRC:
  - Clause 4.13.3 – expiration of security;
  - Clause 4.13.4 – non-valid or non-current security;
  - Clause 4.13.5 – acceptable security;
  - Clause 4.13.6 – any interest to accrue on cash provided as security;
  - Clause 4.13.7 – the acceptable credit criteria;
  - Clause 4.13.8 – establishing that the IMO must have a procedure in place and any special requirements for ECRC; and
  - Clause 4.13.10 – 4.13.12 – the criteria for the return of the security or forfeiting the security as the case may be.

***Issue 6: Clarification of rules surrounding return of non-cash Reserve Capacity Security***

Currently, clause 4.13.10A(c) stipulates that a Reserve Capacity Security in the form of a cash deposit must be returned within 10 Business Days. This is once the IMO has determined the Market Participant's facility has fulfilled the requirements of either the 100 percent test or the 90 percent test. The clause is silent as to the treatment of non-cash Reserve Capacity Security.

#### Proposed Solution

New clause 4.13.14 has been proposed to treat security provided as a non-cash deposit in the same manner as security provided as a cash deposit. The IMO notes that the current requirements of clause 4.13.10A around a Market Participant requesting the release of the relevant security and the IMO's obligations for its return have been incorporated into the new proposed clause 4.13.14.

#### **Issue 7: Typographical amendments**

A number of minor changes to the wording of the Reserve Capacity Security section of the Market Rules (section 4.13) have been proposed along with amendments to the structure of these clauses to follow a more logical sequence, particularly around the return of security.

## **2. Explain the reason for the degree of urgency:**

The IMO proposes that the Rule Change Proposal be progressed via the Standard Rule Change Process.

## **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)**

The proposed changes to the Market Rules to implement each of the proposed solutions identified are provided below.

The proposed amendments to clause 2.8.13 will remove clause 4.1.27 as being a Protected Provision and therefore requiring the Ministers approval for any changes to be made. The proposed removal of this clause is consistent with the IMO's intent to remove clause 4.1.27, as presented below.

The proposed amendments also account for the restructuring of section 4.13.10. In particular the details of the 90% test will be included in new clause 4.13.10. The IMO considers that the the requirements around the 90% test should remain a Protected Provision due to the IMO's potential conflict of interest.

The IMO proposes to remove clause 4.13.11B as this is proposed to become blank. The requirements currently specified under this clause around the satisfaction of payment obligations will be incorporated under amended clause 4.13.11A.

2.8.13. The following clauses are Protected Provisions:

- (a) clauses 1.1 to 1.3 and 1.5 to 1.9 ;
- (b) clauses 2.1 to 2.24, 2.28, 2.31.1, 2.31.3, 2.31.5(a), 2.31.6, 2.34.1 and 2.36.1;
- (c) clauses 3.15, 3.18.18 and 3.18.19;
- (d) clauses 4.1.4 to 4.1.12, 4.1.15 to 4.1.19, 4.1.21, 4.1.22, 4.1.24, ~~4.1.27~~, 4.5.10, 4.5.11, 4.5.15 to 4.5.20, 4.13.10, 4.13.10A, 4.13.10B, 4.13.11, 4.13.11A, ~~4.13.11B~~, 4.16, 4.24.1, 4.24.2 and 4.24.12;
- (e) clauses 5.2.3, 5.2.7 and 5.5.1;
- (f) clauses 9.16.3, 9.16.4 and 9.20.2; and
- (g) clauses 10.1.1, 10.1.2, 10.2.1, 10.3 and 10.4.

The proposed amendments to clause 4.1.21 will remove the substantive details around Reserve Capacity Security obligations from this clause. The amended clause 4.1.21 will provide details around the timelines for the IMO to calculate the amount of Reserve Capacity Security to be held following a request by a Market Participant for a recalculation under new clause 4.13.2A.

The IMO notes that the Pre Rule Change Discussion Paper: Certification of Reserve Capacity (PRC\_2010\_14) currently proposes an amendment to the timeframes around Reserve Capacity Security from 5pm on the last Business Day on or before 23 December to 10 September of Year 1. The IMO notes that any final drafting under this Rule Change Proposal will take into account the outcomes of the consultation on PRC\_2010\_14.

- 4.1.21. ~~Not later than~~ Following a request from a Market Participant under clause 4.13.2A the IMO must calculate the amount of Reserve Capacity Security required to be held by the IMO for a Facility in accordance with clause 4.13.2(b) by 5 PM of the last Business Day falling on or before 23 December of Year 1 of a Reserve Capacity Cycle. The IMO must, in accordance with clause 4.13.10:
- ~~(a) notify a Market Participant that has provided a Reserve Capacity Security for a Facility that the Reserve Capacity Security is no longer required; and~~
  - ~~(b) return any Reserve Capacity Security which was provided in the form of a cash deposit;~~
- ~~in the event that the Market Participant does not hold Capacity Credits for the Facility to which the Reserve Capacity Security relates in the relevant Reserve Capacity Cycle.~~

The proposed amendment to clause 4.1.27 will remove this clause as it duplicates the requirements specified in clause 4.13.10A. The IMO notes that section 4.1 provides timelines for Reserve Capacity Cycle, where as clause 4.1.27 provides details of the requirement for Reserve Capacity Security to be provided by a Market Participant which is replicated in section 4.13.

- 4.1.27. ~~The IMO must in accordance with clause 4.13.10 notify a Market Participant that has provided a Reserve Capacity Security for a Facility that the Reserve Capacity Security is no longer required, and return any cash deposit within five Business Days of the first day that the Facility to which the Reserve Capacity Security relates is considered by the IMO to be in commercial operation and capable of meeting its Reserve Capacity Obligation. [Blank]~~

The proposed amendment to clause 4.9.9 will ensure that Market Participants with Facilities certified under clause 4.11.2(b) are advised of whether the IMO accepted or rejected the proposed alternative value to apply for the purposes of the Required Level for each of its Facilities.

- 4.9.9. If the IMO assigns Certified Reserve Capacity to a Facility in respect of a Reserve Capacity Cycle, the IMO must advise the applicant:
- (a) of the amount of Certified Reserve Capacity assigned to the Facility in respect of the Reserve Capacity Cycle, as determined in accordance with clause 4.11 or clause 4.9.5(c) (as applicable);
  - (b) of the initial Reserve Capacity Obligations Quantity set for the Facility, as determined in accordance with clause 4.12 or clause 4.9.5(c) (as applicable);
  - (c) of any Reserve Capacity Security required as a condition of a Market Participant holding the Certified Reserve Capacity, as determined in accordance with clause 4.13.1 or clause 4.9.5(c) (as applicable);
  - (d) in the case of Conditional Certified Reserve Capacity, that the certification is subject to the conditions in clause 4.9.5(a) and (b); ~~and~~
  - (e) the calculations upon which the IMO's determinations are based; and
  - (f) whether the IMO accepted or rejected a proposed alternative value to be used in the calculation of the Required Level for a Facility which applied to be certified under clause 4.11.2(b) (if applicable).

The proposed amendment to clause 4.10.3 will require the report provided by an independent expert for the purposes of CRC to include details of the value of the 5 percent POE of the 3-year expected peak output of the Facility. An alternative value may also be proposed to the IMO for consideration in the case where the independent expert does not consider the value corresponding with the 5 percent POE is appropriate. In proposing an alternative value the independent expert must provide reasons why the value is appropriate for the IMO's consideration under clause 4.13.10B.

- 4.10.3. An application for certification of Reserve Capacity that includes a nomination to use the methodology described in clause 4.11.2(b) for an ~~Intermittent Generator~~

Facility that is yet to enter service must include a report prepared by an expert accredited by the IMO, in accordance with the Reserve Capacity Procedure, ~~where this report is to be used to assign the Certified Reserve Capacity for that Facility in accordance with clause 4.11.1(e).~~ The report must include:

- (a) a value, expressed in MW as a sent out value, which equals the 5 percent probability of exceedance of expected peak output for the Facility for all the Trading Intervals that occurred within the last three years up to, and including, the last Hot Season, where this value is to be used in the calculation of the Required Level in clause 4.11.3B;
- (b) a proposed alternative value to that specified in clause 4.10.3(a), expressed in MW as a sent out value, to apply for the purposes of the Required Level, if applicable; and
- (c) the reasons for any proposed alternative value provided under clause 4.10.3(b).

The proposed new clause will specify that the IMO will accept or reject an alternative value for a Facility certified under clause 4.11.2(b) to be used in determining its Required Level.

4.11.2A. Where an applicant nominates under clause 4.10.3(b) to have the IMO use an alternative value to that specified in clause 4.10.3(a) the IMO:

- (a) may reject the proposed alternative value if the IMO does not consider the reasons provided in accordance with clause 4.10.3(c) provide sufficient evidence that an alternative value is required;
- (b) if it has not rejected the proposed alternative value under paragraph (a), the IMO must use the alternate value in the calculation of the Required Level under clause 4.11.3B.

The proposed new clause 4.11.3B outlines how the IMO will calculate the Required Level for each Facility. The Required Level will form the basis for the return of Reserve Capacity Security, Reserve Capacity Testing and determination of when an Intermittent Facility will be required to make Reserve Capacity refunds. The proposed new clause will also clarify that upgrades for existing Facilities will be tested as a whole for the purposes of the return of Reserve Capacity Security.

4.11.3B The Required Level (which for an upgraded Facility is calculated for the Facility as a whole):

- (a) For Facilities assigned Certified Reserve Capacity under clause 4.11.1(a), is calculated using the Metered Schedule and temperature

dependence information submitted to the IMO under clause 4.10.1(e)i. and converted to a sent out basis to 41 °C;

(b) For Facilities assigned Certified Reserve Capacity under clause 4.11.2(b), either:

(i) the value, expressed in MW as a sent out value, that equals the 5 percent probability of exceedance of expected peak output for the Facility, submitted to the IMO in the report described in clause 4.10.3(a); or

(ii) the proposed alternative value, expressed in MW as a sent out value, provided in the report described in clause 4.10.3(b), where the IMO has accepted the proposed alternative value under clause 4.11.2A; and

(c) For Curtailable Loads and Demand Side Management Programmes, is calculated using the Facility's Relevant Demand minus the Capacity Credits assigned to that Facility.

The proposed amendments to clause 4.13.1, in conjunction with the proposed new clauses 4.13.1A and 4.13.1B, will clarify that Reserve Capacity Security will only be required for the first Reserve Capacity Cycle.

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 yet to commence operation~~, 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(a) by the date and time specified in clause 4.1.13 ~~for the Reserve Capacity Cycle to which the Certified Reserve Capacity relates.~~

The proposed new clause 4.13.1A clarifies that Reserve Capacity Security will only be required for the first Reserve Capacity Cycle that a Facility will receive Capacity Credits for unless the facility is upgraded.

4.13.1A The obligation under clause 4.13.1 to provide Reserve Capacity Security does not apply where the Market Participant has provided Reserve Capacity Security in relation to the same Facility for a previous Reserve Capacity Cycle, unless the Facility is an existing Facility which has undergone significant maintenance. Where an existing Facility has undergone significant maintenance the requirement to provide Reserve Capacity Security only applies to the part of the Facility being upgraded.

The proposed new clause 4.13.1B will clarify that an upgrade to an existing facility constitutes a Facility for the purposes of clause 4.13.

4.13.1B For the purposes of this clause 4.13, a Facility includes part of a Facility, any upgrade to an existing Facility, and a Demand Side Programme, unless otherwise stated.

The proposed amendment to clause 4.13.2 clarifies that the amount of Reserve Capacity Security to be held by a Market Participant will be calculated by the IMO following a request by a Market Participant after the outcomes of the Auction and Bilateral Trade Declaration process. The amended value under clause 4.13.2(b) will be compared to that originally determined under clause 4.13.2(a) to determine whether any excess security needs to be returned to a Market Participant under clause 4.13.2B, when requested by a Market Participant. This will take into account the situation where a Facility offers Certified Reserve Capacity into both the Auction and Bilateral Trade Declaration but are only assigned Capacity Credits through one of these mechanisms (i.e. the Market Participants offer does not clear in the Auction).

4.13.2. ~~The amount of~~ For the purposes of clause 4.13.1, the amount of Reserve Capacity Security is:

- (a) at the time and date referred to in clause 4.1.13, twenty-five percent of the Maximum Reserve Capacity Price included in the most recently issued Request for Expressions of Interest at the time the Certified Reserve Capacity is assigned, expressed in \$/MW per year, multiplied by an amount equal to:
  - (a*i.*) the Certified Reserve Capacity assigned to the Facility; less
  - (b*ii.*) the total of any Certified Reserve Capacity amount specified in accordance with clause 4.14.1(d) or referred to in clause 4.14.7(c)(ii);  
and
- (b) at the time and date referred to in clause 4.1.21, twenty-five percent of the Maximum Reserve Capacity Price included in the most recently issued Request for Expressions of Interest at the time the Certified Reserve Capacity was assigned, expressed in \$/MW per year, multiplied by an amount equal to the Capacity Credits provided by the Facility under clause 4.20.1(a).

The proposed new clause 4.13.2A will require a Market Participant who considers they hold more Reserve Capacity Security than needed following the outcomes of the Auction and Bilateral Trade Declaration process to apply to the IMO for a recalculation of the amount of security.

4.13.2A A Market Participant may apply to the IMO for a recalculation of the amount of Reserve Capacity Security required to be held for a Facility using the formula in clause 4.13.2(b) after the time and date referred to in clause 4.1.21.



The proposed new clause 4.13.2B will clarify that following a request by a Market Participant under clause 4.13.2A if the IMO's recalculation indicates that an excess amount of Reserve Capacity Security is held for a Facility, then the IMO will return any excess Reserve Capacity Security to the Market Participant.

4.13.2B Following the receipt of a request from a Market Participant under clause 4.13.2A, if the amount recalculated by the IMO under clause 4.13.2 (b) is less than that originally calculated under clause 4.13.2 (a) then the IMO must:

- (a) notify a Market Participant that has provided a Reserve Capacity Security for a Facility of the result of the calculation; and
- (b) once the Market Participant has provided any replacement Reserve Capacity Security in accordance with clause 4.13.4A, return any excess Reserve Capacity Security.

The proposed amendment to clause 4.13.3 clarifies that replacement security will only be required if the obligation to provide security extends beyond the period of validity of the current security.

The IMO will include details around the requirement for the replacement Reserve Capacity Security to be in place at least 10 Business Days before the existing Reserve Capacity Security is due to terminate in the Market Procedure for Reserve Capacity Security.

4.13.3. Where a Market Participant's existing Reserve Capacity Security is due to ~~expire or~~ terminate and after that termination the Market Participant will continue to have an obligation to ensure the IMO holds the benefit of a Reserve Capacity Security under clause 4.13.1, then that Market Participant must ensure that the IMO holds the benefit of a replacement Reserve Capacity Security in an amount not less than the level required under clause 4.13.2 that will become effective at the expiry of the existing Reserve Capacity Security . The replacement Reserve Capacity Security must:

- (a) be in an amount not less than the level required under clause 4.13.2; and
- (b) become effective before the termination of the existing Reserve Capacity Security.

The proposed new clause 4.13.3A clarifies that where following a request by a Market Participant the IMO determines that excess security is currently held for a facility, the Market Participant must ensure that the IMO hold the benefit of the necessary amount of replacement security.

The proposed new clause applies to security which would otherwise remain current and valid, if not held in excess by the IMO.

4.13.3A Where under clause 4.13.2B the IMO determines that excess Reserve Capacity Security is currently held for a Market Participant, then that Market Participant must ensure that the IMO holds the benefit of a replacement Reserve Capacity Security. The replacement Reserve Capacity Security must:



- (a) be in an amount not less than the level required under clause 4.13.2(b);  
and
- (b) become effective before the IMO returns any excess Reserve Capacity  
Security.

The IMO proposed amended clause 4.13.10 will allow a Market Participant to receive its security back after the end of the relevant Capacity Year, provided that the Facility has operated the whole of the Facility (including for an upgrade of an existing Facility) in at least two Trading Intervals to at least 90 percent of the Required Level during the relevant Capacity Year. This was previously covered under clause 4.13.11.

The IMO proposes to scale the Required Level for the purposes of Reserve Capacity Security under to the level of Capacity Credits originally assigned to the Facility. This will ensure that the Facilities obligations are measured against the Capacity Credits assigned to it for the Capacity Year. This will ensure that if the Capacity Credits for the Facility are reduced by the IMO (e.g. following a test) these will not be taken into account in determining whether Reserve Capacity Security can be returned.

The IMO notes that the return of security where a Facility has met the 90 percent requirement will be amended from the current 20 Business Day timeframe to 10 Business Days after the end of the relevant Capacity Year. This will ensure consistency with the requirements of clause 4.13.14.

- 4.13.10 ~~A Market Participant is no longer required to ensure that the IMO holds the benefit of a Reserve Capacity Security after:~~
- ~~(a) — 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 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 the case of a new Facility to which none of (a), (b), or clause 4.13.11A 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.~~

If a Market Participant that provides Reserve Capacity Security in respect of a Facility:

(a) operates the Facility at a level which is at least 90 percent of its Required Level, scaled to the level of Capacity Credits specified in clause 4.20.1(a), in at least two Trading Intervals before the end of the relevant Capacity Year; and

(b) is considered by the IMO to be in Commercial Operation,

then the IMO will return the Reserve Capacity Security to the Market Participant within 10 Business Days after the end of the relevant Capacity Year

The proposed amended clause 4.13.10A will specify the requirement for a Market Participant to request the IMO to determine whether it is in Commercial Operation for the purposes of the Reserve Capacity Mechanism.

The current specifications relating to the return of security under clause 4.13.10A are proposed to be removed and will be incorporated into new clause 4.13.14. The IMO considers that this will ensure that the integrity of the Market Rules is maintained.

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).~~

A Market Participant may request the IMO to determine that a Facility is in Commercial Operation for the purposes of the Chapter 4 of these Market Rules.

The proposed new clause 4.13.10B will provide details of the how the IMO will determine that a facility is in Commercial Operation following a request from a Market Participant. The IMO notes that new Facilities that commission under a Resource Plan will be able to provide the IMO with any supporting documentation for consideration.

Further details of the information required to be provided by Market Participants to allow the IMO to make its determination will be specified in the Reserve Capacity Market Procedure.

4.13.10B On receipt of a request made under clause 4.13.10A the IMO must determine, within 20 Business Days, whether the Facility is in Commercial Operation. In making each such determination the IMO must, if applicable, have regard to:

- (a) whether the Facility has completed an approved Commissioning Test under clause 3.21A and subsequently produced energy for two Trading Intervals; and
- (b) any formal advice received from the Market Participant that it has completed an approved Commissioning Test under clause 3.21A and is commercially operational.

The IMO may also have regard to any additional information the IMO considers relevant.

The proposed amendment to clause 4.13.11 will remove the current requirements relating to the 90 percent test for the return of security which will be included in the amended clause 4.13.10. The amended clause 4.13.11 will clarify that a Market Participant who fails to meet the 90 percent test level will be required to pay the IMO the amount of its security as compensation to the market. This requirement is currently provided under clause 4.13.11A. The IMO does not propose any material amendments to this requirement.

The IMO considers that the restructuring of these clauses will maintain the integrity of the Market Rules.

~~4.13.11 If a Market Participant that provides a Reserve Capacity Security in respect of a Facility under this clause 4.13 operates the Facility:~~

- ~~(a) 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; and~~
- ~~(b) the Trading Interval falls 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, unless the IMO has already returned the Reserve Capacity Security to the Market Participant under clause 4.13.10A, the IMO will return the Reserve Capacity Security to the Market Participant within 20 Business Days after the end of the relevant Capacity Year.~~

If a Market Participant fails to operate a Facility in accordance with clause 4.13.10 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.

The proposed amendment to clause 4.13.11A will remove the current reference to the requirement to paid compensation to the market if a Market Participant fails to operate a facility to at least the 90 percent test level (this is covered under amended clause 4.13.11). The amended clause will specify how the payment obligations under clause 4.13.11 will apply (these are currently provided under clause 4.13.11B). The IMO does not propose any material amendments to this requirement.

The IMO considers that the restructuring of these clauses will maintain the integrity of the Market Rules.

~~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. The~~  
payment obligation under clause 4.13.11 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.

The proposed amendment to clause 4.13.11B will remove the current details specified in this clause. These will be provided in the proposed amended clause 4.13.11A.

~~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. [Blank]~~

The proposed amendment to clause 4.13.12 will update the reference from clause 4.13.11 to 4.13. The IMO notes that there is no need to update this clause to refer to a non-cash deposit. This is because in the case where a Market Participant fails to meet 90 percent of its Required Level and currently holds a non-cash deposit, the non-cash deposit (e.g. bank undertaking) will still continue to operate according to its terms.

4.13.12. If the Reserve Capacity Security drawn upon under clause 4.13.11 is a cash deposit, then the Market Participant forfeits the amount of the cash deposit.

The proposed new clause 4.13.13 will allow for the return of security once the Required Level of output has been met regardless of whether this occurs before or after an RCOQ of greater than zero applies. This will allow for Facilities which have commissioned early to receive their security back on the day where they meet the IMO's Required Level for two Trading Intervals and are considered by the IMO to be in Commercial Operation. For example if a Facility is commissioned and meets its Required Level before 30 November for Reserve Capacity Cycles up to and including 2009 or 1 October for the 2010 Reserve Capacity Cycle and are determined by the IMO to be in Commercial Operation onwards they will be entitled to have their security returned.

The IMO proposes to scale the Required Level for the purposes of Reserve Capacity Security under sub-clause (b) to the level of Capacity Credits originally assigned to the Facility. This will ensure that the Facilities obligations are measured against the Capacity Credits assigned to it for the Capacity Year. This will ensure that if the Capacity Credits for the Facility are reduced by the IMO (e.g. following a test) these will not be taken into account in determining whether Reserve Capacity Security can be returned.

The proposed sub-clause (a) will not reference clause 4.20, as currently clause 4.13.10(a) does. The IMO notes that this reference does not currently take into account all situations where a Market Participant may not have any Capacity Credits. The proposed sub-clause will clarify that a Market Participant who does not have Capacity Credits at 5pm on the Business Days falling on or before 23 December of Year 1 of the Capacity Cycle, will not be required to hold security from that time onwards.

4.13.13 A Market Participant may apply to the IMO for the release of any Reserve Capacity Security held, earlier than the end of the relevant Capacity Year, if the Reserve Capacity Security relates to:

a) a Facility that provides no Capacity Credits at the time and date specified in clause 4.1.21; or

(b) a Facility that:

(i) has operated at 100 percent of its Required Level, scaled to the level of Capacity Credits specified in clause 4.20.1(a), in at least two Trading Intervals prior to the end of the relevant Capacity Year; and

(ii) is considered by the IMO to be in Commercial Operation.

The proposed new clause 4.13.14 clarifies that non-cash Reserve Capacity Security will be treated in the same manner as Reserve Capacity Security provided via a cash deposit. The IMO notes that this new clause will provide the same details as currently contained under clause 4.13.10A, albeit with a a typographical change from “refund the cash deposit” to “return the cash deposit” for consistency with clause 4.1.21.

The IMO also proposes to specify the process for returning Reserve Capacity Security following the outcomes of the 100 percent requirement (clause 4.13.13) and for early certified facilities the IMO’s recalculation under clause 4.28C.12 (b).

4.13.14 Where the IMO receives an application made under clause 4.13.13 it must, within 10 Business Days:

- (a) determine whether the need to maintain the Reserve Capacity Security has ceased;
- (b) notify the Market Participant of its determination;
- (c) if the Reserve Capacity Security is a cash deposit that is no longer required to be held, return the cash deposit (plus interest earned); and
- (d) if the Reserve Capacity Security is a non-cash deposit and is no longer required to be held, use reasonable endeavours to relinquish any rights to draw on the Reserve Capacity Security.

The proposed new clause 4.13.15 will specify when the security will be returned for Facilities which have meet the requirements of the 100 percent test or which have no Capacity Credits.

4.13.15 If the IMO determines under clause 4.13.14(a) that the need to maintain the Reserve Capacity Security has ceased it must return the Reserve Capacity Security:

- (a) in the case of a Facility that provides no Capacity Credits, by the time and date specified in clause 4.1.21;
- (b) in the case of a new Facility that satisfies 100 percent of its Reserve Capacity Obligation Quantity, on the first day after the Facility satisfies the requirements of clause 4.13.13(b).

The proposed amendment to clause 4.25.1 is to refer to the Required Level established under clause 4.10.13B in place of the maximum Reserve Capacity Obligation Quantity.

The IMO proposes to scale the Required Level to the level of Capacity Credits. This will ensure that for the purposes of Reserve Capacity Testing the level of Capacity Credits as amended by the IMO following any previous tests will be taken into account.

The IMO notes that clause 4.25.1 of the Market Rules will be updated to reflect the Amending Rules resulting from the Rule Change Proposal: Demand Side Management Operational Issues (RC\_2008\_20) on 1 October 2010.

- 4.25.1. The IMO must take steps to verify, in accordance with clause 4.25.2, that each Facility providing Capacity Credits:
- (a) can, during the term the Reserve Capacity Obligations apply, operate at its ~~maximum Reserve Capacity Obligation Quantity~~ Required Level, scaled to the level of Capacity Credits currently held, at least once during each of the following periods and in the case of a generation system, such operation must be achieved on each type of fuel available to that Facility notified under clause 4.10.1(e)(v):
    - i. 1 October to 31 March; and
    - ii. 1 April to 30 September; and
  - (b) can, during the six months prior to the Reserve Capacity Obligations for the first Reserve Capacity Cycle taking effect, operate at its maximum Reserve Capacity Obligation Quantity at least once and, in the case of a generating system, such operation on each type of fuel available to that Facility notified under clause 4.10.1(e)(v). This paragraph (b) does not apply to facilities that are not commissioned prior to their Reserve Capacity Obligations coming into force.

The proposed amendment to clause 4.25.2 is to refer to the Required Level established under clause 4.10.13B. This clause provides clarification around how the IMO determines the Required Level previously referenced in this clause. This is currently only contained in the Market Procedure for Reserve Capacity Testing.

The IMO notes that clause 4.25.2 of the Market Rules will be updated to reflect the Amending Rules resulting from the Rule Change Proposal: Demand Side Management Operational Issues (RC\_2008\_20) on 1 October 2010.

- 4.25.2. The verification referred to in clause 4.25.1 can be achieved:
- (a) by the IMO observing the Facility operate at the ~~Required Level~~, scaled to the level of Capacity Credits currently held, at least once as part of normal market operations in Metered Schedules specific to the Facility; or
  - (b) by the IMO:
    - i. in the case of a generation system, requiring System Management in accordance with clause 4.25.7 to test the Facility's ability to operate at the ~~Required Level~~, scaled to the level of Capacity Credits currently held, for not less than 60 minutes and the Facility successfully passing that test; and



- ii. in the case of Interruptible Loads, Curtailable Loads and Dispatchable Loads, requiring System Management, in accordance with clause 4.25.7, to test the process and systems to activate a reduction in demand without requiring demand to actually reduce, and the Facility successfully passing that test.

The proposed amendment to clause 4.25A.3 is to refer to the Required Level for the purposes of determining whether a Verification Test has been successful.

4.25A.3. The Verification Test is failed if a reduction in demand equal to at least 10% percent of the Required Level scaled to the level of Capacity Credits currently held ~~Capacity Credits~~ is not identified from the Curtailable Load meter data.

The proposed amendment to clause 4.25.4B is to reference the requirements of the IMO following a request from a Market Participant to release its security. These requirements are proposed to be removed from clause 4.13.10A and included in new clause 4.13.14.

- 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 4.13.10A~~14~~ of its determination 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.

The proposed amendment to clause 4.26.1 is to refer to the Required Level established under clause 4.10.13B in place of Intermittent Generators being deemed commissioned by the IMO. The IMO proposes to insert the same scaling factor to Capacity Credits assigned at the beginning of the Capacity Year as used for the purposes of the return of Reserve Capacity Security.

- 4.26.1. If a Market Participant holding Capacity Credits associated with a generation system fails to comply with its Reserve Capacity Obligations applicable to any given Trading Interval then the Market Participant must pay a refund to the IMO calculated in accordance with the following provisions.

#### REFUND TABLE

Dates	1 April to 1 October	1 October to 1 December	1 December to 1 February	1 February to 1 April
Business Days Off-Peak Trading Interval Rate (\$ per	0.25 x Y	0.25 x Y	0.5 x Y	0.75 x Y



MW shortfall per Trading Interval)				
Business Days Peak Trading Interval Rate (\$ per MW shortfall per Trading Interval)	1.5 x Y	1.5 x Y	4 x Y	6 x Y
Non-Business Days Off-Peak Trading Interval Rate (\$ per MW shortfall per Trading Interval)	0.25 x Y	0.25 x Y	0.5 x Y	0.75 x Y
Non-Business Days Peak Trading Interval Rate (\$ per MW shortfall per Trading Interval)	0.75 x Y	0.75 x Y	1.5 x Y	2 x Y
Maximum Participant Refund	The total value of the Capacity Credit payments paid or to be paid under these Market Rules to the relevant Market Participant for the 12 Trading Months commencing at the start of the Trading Day of the previous 1 October assuming the IMO acquires all of the Capacity Credits held by the Market Participant and the cost of each Capacity Credit so acquired is determined in accordance with clause 4.28.2(b), (c) and (d) (as applicable).			
Where:				
<p>For an Intermittent Facility that has <u>operated at 100 percent of its Required Level, scaled to the level of Capacity Credits specified in clause 4.20.1(a), in at least two Trading Intervals and following a request to the IMO by a Market Participant is considered by the IMO to be in Commercial Operation</u> <del>been commissioned</del>: Y equals 0</p> <p>For all other facilities, including Intermittent Facilities that following a request to the IMO by a Market Participant <u>are not considered by the IMO to be in Commercial Operation</u> <del>have not been commissioned</del>: Y is determined by dividing the Monthly Reserve Capacity Price (calculated in accordance with clause 4.29.1) by the number of Trading Intervals in the relevant month.</p> <p><del>For the purposes of this clause, an Intermittent Facility will be deemed to be commissioned when the IMO determines that the facility is fully operational. In this case the IMO must apply the principle that the Facility is fully operating in accordance with the basis on which the Facility applied for, and was granted, Certified Reserve Capacity, in accordance with clause 4.10 and 4.11 respectively and was subsequently assigned Capacity Credits in accordance with clause 4.14.</del></p>				

The proposed amendment to clause 4.26.1A will update the reference in subclause 4.21.1A(a)(iv) to not have been deemed in Commercial Operation rather than commissioned. This is consistent with the proposed amendments to clause 4.21.1.

The IMO notes that amendments to clause 4.26.1A of the Market Rules are currently proposed under the Rule Change Proposal: Updates to Reserve Capacity Obligation Provisions (RC\_2010\_16).

4.26.1A. The IMO must calculate the Forced Outage refund for each Facility (“**Facility Forced Outage Refund**”) as the lesser of:

(a) the sum over all Trading Intervals t in Trading Month m of the product of:

- i the Off-Peak Trading Interval Rate or Peak Trading Interval Rate determined in accordance with the Refund Table applicable to Trading Interval  $t$ ; and
- ii the Forced Outage Shortfall in Trading Interval  $t$ ,

where the Forced Outage Shortfall for a Facility is equal to which ever of the following applies:

- iii. if the Facility is required to have submitted a Forced Outage under clause 3.21.4, the Forced Outage in that Trading Interval measured in MW; or
- iv. if the Facility is an Intermittent Facility which is deemed to have not been ~~commissioned~~ in Commercial Operation, for the purposes of clause 4.26.1, the number of Capacity Credits associated with the relevant Intermittent Facility; or
- v. if, from the Trading Day commencing on 1 October of Year 3, the Facility is undergoing an approved Commissioning Test and, for the purposes of permission sought under clause 3.21A.2, is a new generating system, the number of Capacity Credits associated with the relevant Facility; or
- vi. if, from the Trading Day commencing on 1 October of Year 3, the Facility is not yet undergoing an approved Commissioning Test and, for the purposes of permission sought under clause 3.21A.2, is a new generating system, the number of Capacity Credits associated with the relevant Facility; and

- (b) the total value of the Capacity Credit payments associated with the relevant Facility paid or to be paid under these Market Rules to the relevant Market Participant for the 12 Trading Months commencing at the start of the Trading Day of the most recent 1 October, assuming the IMO acquires all of the Capacity Credits associated with that Facility and the cost of each Capacity Credit so acquired is determined in accordance with clause 4.28.2(b), (c) and (d) (as applicable), less all Facility Forced Outage Refunds applicable to the Facility in previous Trading Months falling in the same Capacity Year.

The proposed amendment to clause 4.28C.8 and new clause 4.28C.8A will ensure that the drafting better mirrors that in clause 4.28C.9. This will also ensure consistency in treatment between capacity that enters the market via the early certification route and that which enters the market during the standard route.

4.28C.8. Within 30 Business Days of the applicant receiving notification by the IMO of the amount of Early Certified Reserve Capacity assigned to the Facility the applicant must ensure that the IMO holds the benefit of a provided Reserve Capacity Security equal to the amount specified in clause 4.28C.9., ~~else the Early Certified Reserve Capacity assigned to the Facility will lapse.~~

4.28C.8A If a Market Participant does not comply with clause 4.28C.8 in full by the time specified in clause 4.28C.8, the Early Certified Reserve Capacity assigned to that Facility will lapse.

The proposed amendment to clause 4.28C.12 will clarify that in the case when the calculation of clause 4.28C.12 results in a reduction in Reserve Capacity Security, any excess held by the IMO must be returned within 10 Business Days (in accordance with clause 4.13.14). The proposed amendment also clarifies that it is the IMO's responsibility to perform the re-calculation.

4.28C.12. ~~The Reserve Capacity Security provided by the Market Participant under clause 4.28C.4 (b) must, b~~By the time and date in clause 4.1.13 (a), in y~~Year 1 of the first Reserve Capacity Cycle in which the Facility will commence operation the IMO must be recalculated the amount of Reserve Capacity Security to be provided by each Market Participant under clause 4.28C.8 in accordance with clause 4.28C.9; and;~~

(a) If an additional amount of Reserve Capacity Security is required, the Market Participant must ensure that the IMO holds the benefit of the additional Reserve Capacity Security; and

(b) If a reduced amount of Reserve Capacity Security is required, the Market Participant may request the IMO to return any additional Reserve Capacity Security, in accordance with clause 4.13.14, provided that at all times the IMO holds a Reserve Capacity Security to the level determined in accordance with this clause 4.28C.12.

~~the difference paid to the IMO or refunded to the Market Participant as applicable;~~

The proposed amendment to clause 4.28C.12A will ensure consistent treatment of Facilities which enter the market via the early certification route with regard to the provision and return of Reserve Capacity Security in accordance with clause 4.13.

4.28C.12A From the time and date specified in clause 4.1.13(a) in Year 1 of the first Reserve Capacity Cycle in which the Facility will commence operation, all of the provisions of clause 4.13 apply equally to the Reserve Capacity Security of Facilities with Early Certified Reserve Capacity.

## Glossary

**Commercial Operation:** The status determined by the IMO under clause 4.13.10B that a Facility is operating in the Wholesale Electricity Market.

**Reserve Capacity Security:** Is the reserve capacity security to be provided for a Facility as calculated and re-calculated under clause 4.13 and clause 4.28C. ~~Has the meaning given in clause 4.13.1.~~

**Required Level:** The level of output (expressed in MW) required to be met by a Facility or Demand Side Programme as determined in clause 4.13.10B.

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

The IMO's assessment of the impact of each of the discrete proposed changes is presented below:

#### ***Issue 1: Treatment of Facilities once the first Reserve Capacity Cycle has lapsed***

The IMO considers the changes proposed to the treatment of Facilities once the first Reserve Capacity Cycle has lapsed to have the following impact on the Market Objectives:

Impact	Market Objectives
Allow the Market Rules to better address the objective.	b
Consistent with objective.	a, c, d, e
Inconsistent with objective.	

The IMO considers the proposed changes would allow the Market Rules to better address Market Objective (b). In particular by removing the current ambiguity around whether Reserve Capacity Security may need to be provided beyond the initial Capacity Cycle, a potential perceived barrier to entry will be removed. This will encourage greater competition in the WEM.

The IMO considers the proposed amendments are consistent with the other market objectives.

#### ***Issue 2: Treatment of Intermittent Facilities***

The IMO considers the changes proposed to the treatment of Intermittent Facilities will have the following impact on the Market Objectives:

Impact	Market Objectives
Allow the Market Rules to better address the objective.	c
Consistent with objective.	a, b, d, e

Inconsistent with objective.

The IMO considers the proposed change to introduce a Required Level to be met by a Facility for the purposes of the return of Reserve Capacity Security, Reserve Capacity Testing and capacity refunds will allow the Market Rules to better address Market Objective (c) by ensuring equivalent treatment of conventional and non-conventional technologies. In making this change a current potential discrimination against Intermittent Generation will be removed.

The IMO considers the proposed amendments are consistent with the other market objectives.

***Issue 3: When should Facilities be entitled to have their Reserve Capacity Security returned***

The IMO considers the changes proposed to the timelines for when Facilities should be entitled to have their Reserve Capacity Security returned to have the following impact on the Market Objectives:

Impact	Market Objectives
Allow the Market Rules to better address the objective.	b
Consistent with objective.	a, c d, e
Inconsistent with objective.	

The IMO considers the proposed changes would allow the Market Rules to better address Market Objective (b) by facilitating the efficient entry of new competitors by allowing Reserve Capacity Security to be released earlier. This is expected to have a positive effect by releasing potential working capital earlier.

***Issue 4: Treatment of upgraded Facilities***

The IMO considers the changes proposed to the treatment of upgraded Facilities to have the following impact on the Market Objectives:

Impact	Market Objectives
Allow the Market Rules to better address the objective.	c
Consistent with objective.	a, b, d, e
Inconsistent with objective.	

The IMO considers the proposed changes would allow the Market Rules to better address Market Objective (c) by ensuring equitable treatment of new Facilities and upgraded Facilities, a level playing field will be provided and a potential current discrimination under the Market Rules removed.

***Issue 5: Treatment of Early Certification of Capacity***

The IMO considers the changes proposed to the treatment of Early Certification of Capacity to have the following impact on the Market Objectives:

Impact	Market Objectives
Allow the Market Rules to better address the objective.	c
Consistent with objective.	a, b, d, e
Inconsistent with objective.	

The IMO considers the proposed changes would allow the Market Rules to better address Market Objective (c).by ensuring that ECRC is treated as far as is possible, in the same way as capacity that follows the normal path for certification.

#### ***Issue 6: Clarification of rules surrounding return of non-cash Reserve Capacity Security***

The IMO considers the changes proposed to the treatment of non-cash Reserve Capacity Security will be consistent with the Market Objectives.

#### ***Issue 7: Typographical Amendments***

The IMO considers the minor changes proposed to clause 4.1.21 will be consistent with the Market Objectives. :

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

### **Costs:**

- The IMO will have IT costs associated with this proposal. These costs will be quantified during the first submission period.

### **Benefits:**

- Equivalent treatment of conventional and non-conventional generation types;
- Clarification of the requirements for the return of Reserve Capacity Security (at both the 100 percent and 90 percent level);
- Clarification that capacity which enters via the early certification route will be treated equally to that which enters via the standard route;
- Clarification that if an existing facility undertakes a upgrade the Facility as a whole will be tested;
- Introduction of the concept of a Required Level for the purposes of the return of Reserve Capacity Security, Reserve Capacity Testing and determining the capacity refunds to apply for an Intermittent Generator. The IMO considers that the introduction of a single concept will ensure clarity and consistency throughout the Market Rules; and



- Clarification of the rules surrounding the provision of a non-cash deposit as a Reserve Capacity Security.



## **Appendix 1: Updates to the Reserve Capacity Security Market Procedure**

The IMO proposes to amend the Market Procedure: Reserve Capacity Security to provide details of how a Market Participant may apply to the IMO to be considered “in Commercial Operation”, including details of types of supporting evidence that may be provided. Details of the basis under which the IMO will make a decision a Facility is in Commercial Operation are provided in new clause 4.13.10C.

Prior to submission of this proposal into the formal Rule Change Process, the IMO will develop the specific proposed amendments to the Market Procedure. This will ensure that interested parties submitting on the Rule Change Proposal will be provided with transparency of the proposed changes to the Market Procedure.



## Agenda Item 5c: Pre Rule Change Discussion Paper PRC\_2010\_14

### 1. BACKGROUND

The IMO has prepared the Pre Rule Change Discussion Paper PRC\_2010\_14, which proposes changes to the Market Rules relating to the certification of Reserve Capacity.

One of the improvements proposed for the certification process is concerned with the Reserve Capacity Cycle timeframes. The IMO currently has only 12 business days from the end of the certification submission period to when the IMO must have approved or not approved all applications. The IMO has proposed to increase the time for review of applications to eight weeks on the basis that:

- The vast majority of applications are submitted in the last days before the deadline;
- The number of applications has increased significantly since market start;
- This paper proposes to increase the information required from Market Participants, requiring additional review; and
- The current timeline provides little opportunity for discourse between the IMO and Market Participants to clarify elements of an application.

The IMO considers that balance must be met between reviewing applications thoroughly and at the appropriate level of detail and the certainty that investors would seek through the timely provision of approvals.

The IMO also recognises that increasing the time taken to assess CRC applications can affect other processes in the Reserve Capacity Cycle timeline. In particular, the IMO invites feedback from the MAC with regard to the following issues:

- The paper proposes that the certification process finish later, which would then overlap with the winter Reserve Capacity testing process;
- The paper proposes that the submission of applications close on 1 July, on the same day that the Statement of Opportunities is currently issued;
- The IMO has considered that an earlier deadline could be imposed for submission of applications for facilities that are in service.

The IMO will present a number of other timing options at the MAC meeting.

### 2. RECOMMENDATIONS

It is recommended that the MAC:

- **Note** this paper; and
- **Discuss** the revisions to the Reserve Capacity Cycle timeline proposed in the paper.

---

## Agenda item 5c:

### Wholesale Electricity Market Pre Rule Change Discussion Paper

---

**Change Proposal No:** PRC\_2010\_14  
**Received date:**

#### Change requested by

<b>Name:</b>	Greg Ruthven
<b>Phone:</b>	(08) 9254 4301
<b>Fax:</b>	(08) 9254 4399
<b>Email:</b>	greg.ruthven@imowa.com.au
<b>Organisation:</b>	IMO
<b>Address:</b>	Level 3, Governor Stirling Tower, 197 St George's Terrace
<b>Date submitted:</b>	TBA
<b>Urgency:</b>	Standard Rule Change Process
<b>Change Proposal title:</b>	Certification of Reserve Capacity
<b>Market Rule affected:</b>	4.1.12, 4.1.13, 4.1.14, 4.1.16, 4.1.17, 4.1.20, 4.1.21, (new) 4.1.21A, 4.2.7, 4.4.1, 4.9.5, 4.9.9, (new) 4.9.9A, 4.10.1, 4.10.2, 4.10.3. (new) 4.10.4, 4.11.1, 4.11.2, 4.11.3A, 4.1.5, (new) 4.11.10, 4.15.1, 4.20.1, 4.20.5A, 4.27.10, 4.27.11A, 4.28C.1, 4.28C.2, 10.5.1 and the glossary.

---

## Introduction

Clause 2.5.1 of the Wholesale Electricity Market Rules (Market Rules) provides that any person (including the Independent Market Operator (IMO)) may make a Rule Change Proposal by submitting a completed Rule Change Proposal form to the IMO.

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

#### **Independent Market Operator**

Attn: Manager Market Development and System Capacity  
PO Box 7096  
Cloisters Square, Perth, WA 6850

Fax: (08) 9254 4339

Email: [market.development@imowa.com.au](mailto:market.development@imowa.com.au)

The IMO will assess the proposal and, within five 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 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. Describe the concern with the existing Market Rules that is to be addressed by the proposed Market Rule change:**

#### **Background**

The reliability of the South West interconnect system (SWIS) depends on generators and Demand Side Management providers delivering the capacity that they have offered. Each year, all Facilities wanting to apply for Capacity Credits in the Reserve Capacity Mechanism must apply for certification of Reserve Capacity. The certification process is designed to ensure that a facility assigned Capacity Credits can meet its obligations and provide the capacity when it is required. The IMO undertakes a process of certification thorough which it satisfies itself that, among other things:

- the facility will be able to deliver the quantity of capacity that is being offered; and
- if the facility is yet to enter service, that it will be able to supply power into the SWIS by the date claimed.

In applying for certification, developers need to provide information such as:

- Details of their facility's capacity and temperature dependence.
- Information on fuel supply.
- Projected maintenance outage rates.

- Key project dates for new facilities.

The process of certification takes place between mid-July and early August each year.

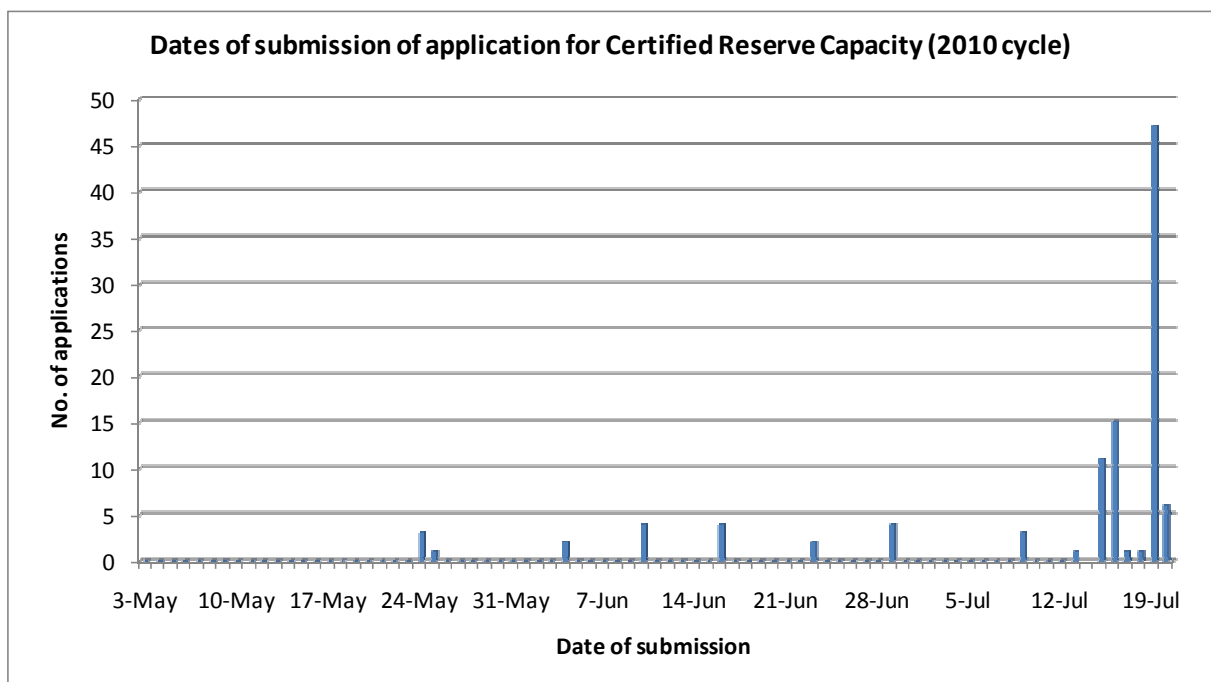
## Issues

The IMO has identified a number of issues with the Market Rules surrounding certification of Reserve Capacity as part of its ongoing review of the Market Rules and during the recently completed certification process. These are explained in further detail below.

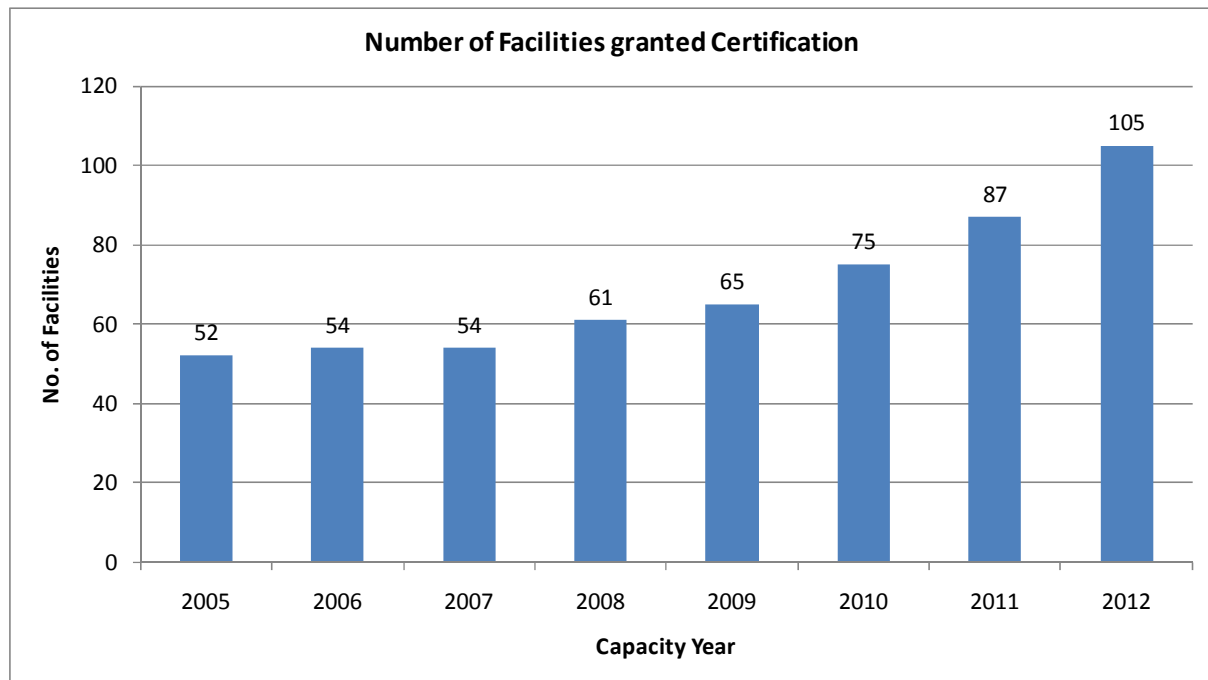
### ***Issue 1: Reserve Capacity Mechanism timeline***

The IMO has identified opportunities to improve the Reserve Capacity Mechanism timeline.

Applications for certification of Reserve Capacity close on the last business day falling on, or before, 20 July in each year. The IMO then has 12 business days until the deadline for confirming Certified Reserve Capacity on the last business day on, or before, 5 August. Although the window for submission of applications is open for approximately 11 weeks, the majority of applications are submitted in the last days before the deadline. This is demonstrated in the graph below that shows the timing of submissions for the 2010 certification process.



The number of certified Facilities has doubled since market start, as shown in the graph below. This, along with the fact that the majority of applications for certification are submitted close to the deadline, has placed increasing strain on the IMO's ability to process the applications within the current timeline. The timeliness of information for Market Participants could be improved by increasing the time available for review of applications.



The IMO has also observed that the short time available for Market Participants with new Facilities to provide Reserve Capacity Security has proven difficult. Where a Market Participant intends to bilaterally trade its capacity, the Reserve Capacity Security must be provided by the last business day on, or before, 10 August. This may only allow 3 business days after the Market Participant has received confirmation of Certified Reserve Capacity. The IMO proposes to increase the time available for delivery of Reserve Capacity Security

In addition, the Market Rules do not explicitly indicate the time at which Capacity Credits are assigned to Facilities. It can be implied from clauses 4.1.20 and 4.1.21 of the Market Rules that this allocation occurs at some time between 20 December and 23 December after Market Participants confirm how many Capacity Credits each Facility will provide. This mechanism allows a Participant to transfer Capacity Credits from a Facility that has been cleared in the Reserve Capacity Auction to another that was not cleared. This could happen sooner after the auction results are published. The IMO proposes that this mechanism, which is currently required under all circumstances, should not be required when the Reserve Capacity Auction is cancelled.

### Proposed Solution

The IMO proposes that:

- the Market Rules be updated to explicitly state that Capacity Credits are assigned either:
  - at the time that the Reserve Capacity Auction is cancelled; or
  - after Market Participants have confirmed the number of Capacity Credits that each Facility will provide (clauses (new) 4.1.16, (new) 4.1.21A, 4.15.1, 4.20.1, 4.20.5A and 4.27.10).
- some of the Reserve Capacity Cycle dates be modified as shown in the table below.

	Description of event	Current date	Proposed date	Clause
1	IMO ceases to accept lodgement of applications for certification of Reserve Capacity	20 July	1 July	4.1.11
2	IMO notifies applicants of Certified Reserve Capacity	5 August	26 August	4.1.12
3	Participants provide Reserve Capacity Security for capacity to be traded bilaterally	10 August	2 September	4.1.13
4	Participants make Bilateral Trade Declaration	10 August	2 September	4.1.14
5	IMO confirms the amount of capacity that can be traded bilaterally	1 business day after (3)	1 business day after (3)	4.1.15
6	IMO advises whether Reserve Capacity Auction is required	18 August	2 business days after (3)	4.1.16
7	If no auction required, assign Capacity Credits	Not explicit	2 business days after (3)	4.1.16
8	Reserve Capacity Auction submission window opens	20 August	3 business days after (3)	4.1.17(a)
9	Reserve Capacity Auction submission window closes	29 August	14 September	4.1.17(b)
10	Participants provide Reserve Capacity Security for capacity offered into Reserve Capacity Auction	27 August	14 September	4.1.13
11	IMO runs the Reserve Capacity Auction and publishes results	1 September	15 September	4.1.18
12	Participants who had capacity scheduled in the Reserve Capacity Auction confirm how many Capacity Credits each Facility will provide and whether Special Price Arrangements will be accepted	20 December	21 September	4.1.20
13	Where applicable, IMO notifies Participants that Reserve Capacity Security is no longer required, or returns cash deposits; IMO confirms Capacity Credits if auction held	23 December	24 September	4.1.21
14	If Reserve Capacity Auction held, assign Capacity Credits	Not in current rules	24 September	(new) 4.1.21A

### ***Issue 2: Requirement for valid application to be submitted for Certified Reserve Capacity***

In discussing the assignment of Certified Reserve Capacity, the Market Rules makes reference to “the application” and “applicant”. This section does not specifically refer to the application for Certified Reserve Capacity, nor does it require compliance with the requirements of section 4.10. Also, the Market Rules do not explicitly state that the application should include evidence to support the information provided in accordance with section 4.10.



### Proposed Solution

The IMO proposes to update the Market Rules to specifically require Market Participants to provide a valid application for Certified Reserve Capacity in compliance with section 4.10 and to provide supporting evidence for the information provided in the application (clauses 4.11.1 and 4.11.2).

### **Issue 3: Clarification of Required Availability**

The Market Rules currently require the IMO to assess the level of capacity “likely to be available ... at daily peak demand times” (clause 4.11.1(a)) in assessing an application for Certified Reserve Capacity. The IMO considers that this statement requires further clarification in the Market Rules.

- There is ambiguity in the Market Rules around the ability to award Capacity Credits to a Non-Scheduled Generator according to the methodology described in clause 4.11.1(a). A key component of the Reserve Capacity Target is the reserve margin, which allows for the unexpected unavailability of one or more generators on the SWIS. A Non-Scheduled Generator, unable to be directed by System Management to increase its output in the event of Forced Outages, cannot contribute to the reserve margin and thus cannot be expected to be available at “peak demand times”. Such a Facility should, therefore, only be eligible for certification under the methodology typically used for Intermittent Generators, as described in clause 4.11.2(b). This methodology currently considers average output during the previous three years.
- The requirement for a peaking plant to have sufficient fuel to support operation for 14 hours each day for 10 months of the year is extremely onerous and could result in Market Participants incurring unnecessary additional costs. It is unlikely that peaking plants will be required to operate at this level so it would be reasonable to clarify the availability requirement to refer to Peak Trading Intervals on Business Days, particularly given that system demand is typically lower on weekends and public holidays.
- The Market Rules state that in order for a Facility to be certified as dual fuel it must have sufficient supply and/or supply of the back-up fuel to maintain 12 hours of operation. However, the Market Rules do not state the required level of operation.

### Proposed Solution

The IMO proposes to:

- stipulate that a Facility must be able to be dispatched in order to be certified according to the methodology described in clause 4.11.1(a);
- clarify the requirement in clause 4.11.1(a) for Facilities to be “likely to be available ... for Peak Trading Intervals on Business Days” to clarify the fuel requirements; and
- clarify in clause 4.10.2 that dual-fuelled Facilities must be able to operate for 12 hours at the requested level of Certified Reserve Capacity.

### **Issue 4: Transmission access requirements**

In order to grant Certified Reserve Capacity to a Facility, the IMO reviews the arrangements for the Facility to gain transmission access. The Market Rules refer to an “Access Offer”,



which is inconsistent with the Access Proposals issued by Western Power. The Access Offer, or Electricity Transfer Access Contract (ETAC) is rarely issued sufficiently in advance to be able to reviewed at the time when a Facility is first certified.

#### Proposed Solution

The IMO proposes to replace the phrase “Access Offer” with “Access Proposal” in the Market Rules. This aligns the Rules with the terminology used by Western Power (clauses 4.2.7, 4.4.1, 4.10.1 and the Glossary).

#### **Issue 5: Widen requirement for provision of environmental and transmission access approvals**

Clause 4.10.1(c) of the Market Rules requires that applicants for Certified Reserve Capacity must provide evidence of transmission access and environmental approvals for Facilities that have yet to enter service. Environmental approvals and ETACs typically have expiry dates, so it is reasonable for the IMO to review these approvals for all Facilities as part of its assessment for Certification of Reserve Capacity. By widening this requirement to all Facilities, the IMO will be able to confirm the ongoing validity of these approvals.

In addition, some Access Proposals or ETACs incorporate Run-Back Schemes that may inhibit the availability of a Facility during peak demand times. The Market Rules do not currently consider these arrangements, nor do they provide any link between the level of access and the level of Certified Reserve Capacity.

#### Proposed Solution

The IMO proposes to require that evidence of transmission access and environmental approval be provided for all Facilities (clause 4.10.1). The IMO also proposes to require that Market Participants provide information about any network constraints that may impact the availability of the capacity of the Facility (clauses 4.11.1 and 4.11.5).

#### **Issue 6: Clarification around Intermittent and other Non-Scheduled Generators**

Applications for Certified Reserve Capacity for Intermittent Generators that have yet to enter service must include a report prepared by an accredited expert. The use of the expert report requires clarification in the Market Rules.

- The Market Rules state that the IMO “must” use the expert report provided for the Facility, even when the information contained in the expert report is potentially invalid.
- The Market Rules currently imply that a Participant must produce a new report each year that will estimate the Facility output over the preceding three years. Given that the report is unlikely to vary significantly from previous versions, this may require additional, unnecessary cost to the Market Participant.
- The Market Rules do not currently require the provision of an expert report for an in-service Facility that has not yet operated for the full period of performance assessment. In this scenario, the Market Rules state that the IMO must estimate the Facility output for the remainder of the assessment period but do not necessarily require the use of the expert report in this case.

### Proposed Solution

The IMO proposes to amend the Market Rules to:

- allow the IMO to reject the expert report if it reasonably believes it to be inaccurate (clause 4.11.3A);
- stipulate that the same expert report can be provided by the Market Participant until the Facility has operated for the full period of performance assessment (clause 4.10.3);
- stipulate that the expert report must also be provided for an in-service Facility that has not yet operated for the full period of performance assessment (clause 4.10.3); and
- remove unnecessary duplication in the Rules that discuss the expert report, predominantly by removing the text in 4.11.1(d) and (e).

### ***Issue 7: Transmission or other network constraints***

Where a Facility is subject to a Network Control Services contract, the Market Rules currently direct the IMO to assign Capacity Credits to the Facility with regard to any transmission constraints that are likely to occur (clause 4.11.1 (g)). The IMO Procedure Change and Development Working Group identified that this definition is too narrow and considered that this needs to be broadened to refer to network constraints<sup>1</sup>.

### Proposed Solution

The IMO proposes to replace the phrase “transmission constraints” with “network constraints” in the Market Rules (clause 4.11.1).

### ***Issue 8: Erroneous references to “Registered Facilities”***

Section 4.28C of the Market Rules, covering the Early Certification of Reserve Capacity, contains erroneous references to Registered Facilities. New Facilities may not be registered at the time that an application for certification of Reserve Capacity is submitted.

### Proposed Solution

The IMO proposes to correct the erroneous references to Registered Facilities contained in section 4.28C.

### ***Issue 9: Provision of calculations on which the IMO’s assessment is based***

The IMO is currently required to provide each Market Participant with the “calculations upon which the IMO’s determinations are based” when advising the Participant of the amount of Certified Reserve Capacity being assigned to each Facility (clause 4.9.9(e)). Given the large number of Facilities, this is an onerous requirement for the IMO.

---

<sup>1</sup> See minutes from Meeting #5, 22 April 2010, page 7

### Proposed Solution

The IMO proposes to amend the Market Rules to state that the IMO must provide these calculations when requested to do so by a Market Participant (clause 4.9.9(e)).

### ***Issue 10: Publication of Certified Reserve Capacity information by Facility***

The IMO is currently permitted to publish Capacity Credit information by Facility. One Market Participant has suggested that the IMO could similarly publish the quantity of Certified Reserve Capacity assigned to each Facility prior to the Bilateral Trade Declaration process.

The publication of such information could assist Participants in assessing whether to withdraw some Certified Reserve Capacity in an over-supply scenario. Such a result could reduce the number of Capacity Credits awarded through market forces and thus lower the total cost of capacity in the market. There may be a risk that the publication of this data could encourage Participants to force a Reserve Capacity Auction, and potentially a higher Reserve Capacity Price, if the level of Certified Reserve Capacity matches, or fails to reach, the Reserve Capacity Requirement.

### Proposed Solution

The IMO proposes to publish of the quantity of Certified Reserve Capacity assigned to each Facility on the same day that each Market Participant is notified of its Certified Reserve Capacity (clauses 4.4.9A and 10.5.1).

### ***Issue 11: Changes to Facility design after Capacity Credits awarded OR Maintenance of data provided for Certification of Reserve Capacity***

The Market Rules are currently silent on the subject of changes to a Facility after it has been awarded Certified Reserve Capacity and do not preclude changes to the Facility details from the time it is assigned Capacity Credits. Changes to the design of a Facility may be such that the IMO should reassess the Facility to confirm that the change would not have prevented the IMO from assigning Certified Reserve Capacity. Such a reassessment would require the payment of an Application Fee to the IMO, similar to the requirements for applications for conditional certification or subsequent Early Certified Reserve Capacity.

### Proposed Solution

The IMO proposes that Market Participants should provide a summary of the main components of the Facility in their application for Certified Reserve Capacity (clause 4.10.1). The IMO also proposes that Market Participants be obliged to advise the IMO of any changes to the information provided in applications for Certified Reserve Capacity (new clause 4.10.4).

The IMO would then review the changes and determine whether it would need to reassess the Facility to determine whether it still meets the requirements or Certified Reserve Capacity (new clause 4.11.10). The Market Participant will pay a fee to the IMO for this reassessment (clause 4.9.3(c)).

### ***Issue 12: Repeated rejection of progress reports by IMO***

Once Capacity Credits are assigned to a new Facility for the first time, the Market Participants must provide 3-monthly progress reports from the date that the assignment of Capacity Credits is confirmed until the start of the calendar year in which the Facility was initially scheduled to commence operation. The Market Participant must then provide monthly progress reports until the project commences operation. The progress report may include a revised nomination for the date that Facility is scheduled to be able to fully meet its Reserve Capacity Obligations.

Clause 4.27.11A of the Market Rules requires that the IMO “must not approve a nomination for a date which would have prevented the IMO from assigning Certified Reserve Capacity to a Facility” and must advise the Market Participant within 10 business days of its decision to reject the nomination and the reason for doing so. In the event that a project is delayed and the completion date is pushed beyond the 4-month window in which Reserve Capacity Obligations can commence, this clause forces the IMO to reject every subsequent progress report and to repeatedly notify the Market Participant of this rejection. As the window for the commencement of Reserve Capacity Obligations is stated clearly in clause 4.1.26 of the Market Rules, this repeated rejection of the nomination is not informative for Market Participants and unnecessarily increases the workload of the IMO.

#### Proposed Solution

The IMO proposes to clarify clause 4.27.11A to state that the IMO only needs to approve or reject a nomination if it would result in a change to the date from which Reserve Capacity Obligations would commence.

---

## **2. Explain the reason for the degree of urgency:**

The IMO proposes that this Rule Change Proposal be progressed through the Standard Rule Change Process.

---

## **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)**

The proposed changes to the Market Rules to implement each of the proposed solutions identified are provided below.

The following changes will amend the Reserve Capacity Cycle timeline and clarify the timing of the assignment of Capacity Credits to Facilities, as proposed in the discussion of Issue 1.

- 4.1.11. The IMO must cease to accept lodgement of applications for certification of Reserve Capacity for the Reserve Capacity Cycle in accordance with clause 4.9.1 from 5 PM of the last Business Day falling on or before;

(a) ~~20 July of Year 1 of the Reserve Capacity Cycle~~ for Reserve Capacity Cycles up to and including 2010; and

(b) ~~1 July of Year 1~~ for Reserve Capacity Cycles from 2011 onwards.

4.1.12. The IMO must notify each applicant for certification of Reserve Capacity of the Certified Reserve Capacity to be assigned by 5 PM of the last Business Day on, or before;

(a) ~~5 August of Year 1 of the Reserve Capacity Cycle~~ for Reserve Capacity Cycles up to and including 2010; and

(b) ~~26 August of Year 1~~ for Reserve Capacity Cycles from 2011 onwards.

4.1.13. Each Market Participant must provide to the IMO any Reserve Capacity Security ~~(in full)~~ required in accordance with clause 4.13.1 not later than 5 PM of the last Business Day falling on or before:

(a) for Reserve Capacity Cycles up to and including 2010: ~~10 August of Year 1~~ of the relevant Reserve Capacity Cycle if any of the Facility's Certified Reserve Capacity is specified to be traded bilaterally in accordance with clause 4.14.1(c); or

(i) ~~10 August of Year 1~~ of the relevant Reserve Capacity Cycle if any of the Facility's Certified Reserve Capacity is specified to be traded bilaterally in accordance with clause 4.14.1(c); or

(ii) ~~29 August of Year 1~~ of the relevant Reserve Capacity Cycle if any of the Facility's Certified Reserve Capacity is specified to be offered into the Reserve Capacity Auction in accordance with clause 4.14.1(a) and where none of the Facility's Certified Reserve Capacity is specified to be traded bilaterally in accordance with clause 4.14.1(c).

(b) for Reserve Capacity Cycles from 2011 onwards: ~~29 August of Year 1~~ of the relevant Reserve Capacity Cycle if any of the Facility's Certified Reserve Capacity is specified to be offered into the Reserve Capacity Auction in accordance with clause 4.14.1(a) and where none of the Facility's Certified Reserve Capacity is specified to be traded bilaterally in accordance with clause 4.14.1(c).

(i) ~~2 September of Year 1~~ of the relevant Reserve Capacity Cycle if any of the Facility's Certified Reserve Capacity is specified to be traded bilaterally in accordance with clause 4.14.1(c); or

(ii) ~~14 September of Year 1~~ of the relevant Reserve Capacity Cycle if any of the Facility's Certified Reserve Capacity is specified to be offered into the Reserve Capacity Auction in accordance with clause 4.14.1(a) and where none of the Facility's Certified Reserve Capacity is specified to be traded bilaterally in accordance with clause 4.14.1(c).

- 4.1.14. Each Market Participant holding Certified Reserve Capacity for the Reserve Capacity Cycle must provide to the IMO notification in accordance with clause 4.14.1 as to how much of its Certified Reserve Capacity will be traded bilaterally and how much will be offered to the IMO in the Reserve Capacity Auction held in Year 1 of the relevant Reserve Capacity Cycle not later than 5 PM of the last Business Day falling on or before:
- (a) 9 September 2005, in the case of the first Reserve Capacity Cycle; ~~and~~
  - (b) 10 August of Year 1, in the case of subsequent Reserve Capacity Cycles up to and including 2010; and
  - (c) 2 September of Year 1, in the case of Reserve Capacity Cycles from 2011 onwards.
- 4.1.16. The IMO must publish the information required by clauses 4.15.1 and 4.15.2 pertaining to whether or not a Reserve Capacity Auction is required by 5 PM of the last Business Day falling on or before:
- (a) 16 September 2005, in the case of the first Reserve Capacity Cycle; ~~and~~
  - (b) 18 August of Year 1, in the case of subsequent Reserve Capacity Cycles up to and including 2010; and
  - (c) the first Business Day following the confirmation deadline specified in clause 4.1.15, in the case of Reserve Capacity Cycles from 2011 onwards.
- If the Reserve Capacity Auction is cancelled, the IMO will assign Capacity Credits on the same day in accordance with clause 4.15.1.
- 4.1.17. If a Reserve Capacity Auction proceeds, then the IMO must accept submission of Reserve Capacity Offers from Market Participants in accordance with clause 4.17.2:
- (a) from 9 AM of the first Business Day falling on or following:
    - i. 20 September 2005 of Year 1, in the case of the first Reserve Capacity Cycle; ~~and~~
    - ii. 20 August of Year 1, in the case of subsequent Reserve Capacity Cycles up to and including 2010; and
    - iii. the second Business Day following the confirmation deadline specified in clause 4.1.15, in the case of Reserve Capacity Cycles from 2011 onwards.
  - (b) until 5 PM of the last Business Day falling on or before:
    - i. 29 September 2005, in the case of the first Reserve Capacity Cycle; ~~and~~

- ii. 29 August of Year 1, in the case of subsequent Reserve Capacity Cycles up to and including 2010; and
- iii. 14 September of Year 1, in the case of Reserve Capacity Cycles from 2011 onwards.

4.1.18. If a Reserve Capacity Auction proceeds, then the IMO must

- (a) run the Reserve Capacity Auction on the first Business Day falling on or following:
  - i. 3 October of 2005, in the case of the first Reserve Capacity Cycle; and
  - ii. 1 September of Year 1, in the case of subsequent Reserve Capacity Cycles up to and including 2010; and
  - iii. 15 September of Year 1, in the case of Reserve Capacity Cycles from 2011 onwards; and
- (b) must publish the results in accordance with clause 4.19.5 by 5 PM of that day.

4.1.20. Each Market Participant holding Certified Reserve Capacity ~~to be traded bilaterally or~~ which has been scheduled by the IMO in a Reserve Capacity Auction must provide to the IMO:

- (a) notification, in accordance with clause 4.20, of how many Capacity Credits each Facility will provide; and
- (b) notification of any Long Term Special Price Arrangements to be accepted in accordance with clause 4.22,

not later than 5 PM of the last Business Day falling on or before 21 September ~~20 December~~ of Year 1 of the relevant Reserve Capacity Cycle.

4.1.21. Not later than 5 PM of the last Business Day falling on or before 24 September ~~23 December~~ of Year 1 of a Reserve Capacity Cycle, the IMO must, in accordance with clause 4.13.10:

- (a) notify a Market Participant that has provided a Reserve Capacity Security for a Facility that the Reserve Capacity Security is no longer required; and
- (b) return any Reserve Capacity Security which was provided in the form of a cash deposit,

in the event that the Market Participant does not hold Capacity Credits for the Facility to which the Reserve Capacity Security relates in the relevant Reserve Capacity Cycle.



4.1.21A. Not later than 5 PM of the last Business Day falling on or before 24 September of Year 1 of a Reserve Capacity Cycle, the IMO must, in the event that a Reserve Capacity Auction was required, assign Capacity Credits in accordance with clause 4.20.5A.

The following changes will change the phrase “Access Offer(s)” to “Access Proposals” as proposed in the discussion of Issue 4.

4.2.7. By the date and time specified in clause 4.1.6, the IMO must publish the following information:

- (a) the number of Expression of Interests received;
- (b) based on the Expression of Interests, the additional Reserve Capacity potentially available, categorised as:
  - i. capacity associated with Facilities that are committed; and
  - ii. capacity associated with Facilities that are not yet committed, where this capacity is to be further categorised between new Facilities for which:
    - 1. an offer by the relevant Network Operator to enter into an Arrangement for Access (“**Access Proposal Offer**”) has been made and all necessary Environmental Approvals granted;
    - 2. applications for both Access Proposals ~~Offers~~ and Environmental Approvals have been made and one or both are being processed;
    - 3. no Access Proposal ~~Offer~~ has been applied for or some or all Environmental Approvals have not been applied for;

...

4.4.1. An Expression of Interest for a Reserve Capacity Cycle must include the following information:

...

(d) for each Facility:

...

- ii. the status of any applications for Access Proposals ~~Offers~~ in respect of that Facility;

...



The following amendment adds the requirement for payment of an Application Fee where a Market Participant changes the details of a Facility, requiring reassessment against the requirements for Certified Reserve Capacity. This is proposed in the discussion of Issue 11.

4.9.3. A Market Participant applying for certification of Reserve Capacity must provide to the IMO:

...0urd

- (c) in the case of an application for conditional certification for a future Reserve Capacity Cycle, a reassessment of the assignment of Certified Reserve Capacity under clause 4.11.10, or subsequent applications for Early Certified Reserve Capacity for a Facility for the same Reserve Capacity Cycle, an Application Fee to cover the cost of processing the application.

The following amendment updates a reference as a result of the changes proposed in the discussion of Issue 6.

4.9.5. If the IMO assigns Certified Reserve Capacity to a Facility for a future Reserve Capacity Cycle under clause 4.11 (“**Conditional Certified Reserve Capacity**”):

...

- (c) if the IMO is satisfied that the application re-lodged in accordance with paragraph (b) is consistent with the information upon which the Conditional Certified Reserve Capacity was assigned and is correct, then the IMO must confirm:

- i. the Certified Reserve Capacity;
- ii. the Reserve Capacity Obligations Quantity; and
- iii. the Reserve Capacity Security levels,

that were previously conditionally assigned, set or determined by the IMO, subject to the Certified Reserve Capacity for an Intermittent Generator being assigned in accordance with clause 4.11.2(b)~~4.11.1(d) or 4.11.1(e)~~; and

...

The following change will reduce the burden on the IMO in relation to the provision of calculations upon which the determination of Certified Reserve Capacity is based, as proposed in the discussion of Issue 9.

4.9.9. If the IMO assigns Certified Reserve Capacity to a Facility in respect of a Reserve Capacity Cycle, the IMO must advise the applicant:

...

- (e) upon the request of the applicant, the calculations upon which the IMO's determinations are based.

The following change will allow the IMO to publish the level of Certified Reserve Capacity assigned to each Facility, as proposed in the discussion of Issue 10. This information will be classified as public information, clause 10.5.1 will be amended to reflect this.

4.9.9A The IMO must publish, by the date and time specified in clause 4.1.12, the level of Certified Reserve Capacity assigned to each Facility.

The following amendments will:

- (a) change the phrase "Access Contract" to "Access Proposals" (Issue 4);
- (b) widen the requirement to provide transmission access and environmental approvals (Issue 5); and
- (c) require applicants for Certified Reserve Capacity to provide a summary of the main components of their Facilities (Issue 11). It is expected that this requirement will be explained in further detail in the Market Procedure to provide guidance to Market Participants.

4.10.1. The information to be submitted with an valid application for certification of Reserve Capacity must pertain to the Reserve Capacity Cycle to which the certification relates, must be supported by documented evidence and must include, where applicable, the following information:

- (a) the identity of the Facility;
- (b) the Reserve Capacity Cycle to which the application relates;
- (bA) with the exception of applications for Conditional Certified Reserve Capacity:
  - (i) evidence of an Arrangement for Access or evidence that the Market Participant has accepted an Access Proposal from the relevant Network Operator made in respect of the Facility and that the Facility will be entitled to have access from a specified date occurring prior to the date specified in clause 4.10.1(c)(iii)(7), including the level of unconstrained access and details of any constraints that may apply;
  - (ii) evidence that any necessary Environmental Approvals have been granted or evidence supporting the Market Participant's expectation that any necessary Environmental Approvals will be granted in time to have the Facility meet its Reserve Capacity Obligations by the date specified in clause 4.10.1(c)(iii)(7);
- (c) if the Facility, or part of the facility, is yet to enter service:

- i. ~~[Blank] with the exception of applications for Conditional Certified Reserve Capacity, a letter from the relevant Network Operator indicating that it has made an Access Proposal Offer in respect of the Facility and that the Facility will be entitled to have access from a specified date occurring prior to the date specified in clause 4.10.1(e)(iii)(7);~~
- ii. ~~[Blank] with the exception of applications for Conditional Certified Reserve Capacity, evidence that any necessary Environmental Approvals have been granted or evidence supporting the Market Participant's expectation that any necessary Environmental Approvals will be granted in time to have the Facility meet its Reserve Capacity Obligations by the date specified in clause 4.10.1(e)(iii)(7);~~

...

(dA) a description of the main components of the Facility;

...

The following change will clarify the required availability for a Facility being assessed according to the methodology described in clause 4.11.1(a), as proposed in the discussion of Issue 3.

- 4.10.2. For the purpose of clause 4.10.1(e)(v), an applicant may not claim that a Facility has an alternative fuel unless the Facility has on-site storage, or uninterruptible supply of that fuel, sufficient to maintain 12 hours of operation at the level of capacity specified in clause 4.10.1(e)(ii).

The following changes will clarify the use of the expert report for Intermittent Generation Facilities that have yet to enter service in assigning Certified Reserve Capacity, as proposed in the discussion of Issue 6.

- 4.10.3. An application for certification of Reserve Capacity for an Intermittent Generator that is yet to enter service, ~~or has not operated for the full period of performance assessment under 4.11.2(b),~~ must include a report prepared by an expert accredited by the IMO, in accordance with ~~clause 4.11.6 the Reserve Capacity Procedure, where this report is to be used to assign the Certified Reserve Capacity for that Facility in accordance with clause 4.11.1(e).~~ The report must include estimates of the expected electricity sent out by the Facility for the full period of performance assessment under 4.11.2(b). The applicant may provide the same report until the Facility has been in operation for the full period of performance assessment under clause 4.11.2(b).

The following new clause will require a Market Participants to advise the IMO in the event that any of the details provided in its application for Certified Reserve Capacity have changed, as proposed in the discussion of Issue 11.

4.10.4. Market Participants must advise the IMO if any of the details provided in an application for Certified Reserve Capacity for a Facility, in accordance with this section 4.10, have changed.

The following changes will:

- (a) ensure that the assignment of Certified Reserve Capacity must relate to the submission of a valid application (issue 2);
- (b) clarify the required availability for a Facility being assessed according to the methodology described in clause 4.11.1(a) (issue 3);
- (c) link the level of Certified Reserve Capacity to the unconstrained level of network access (issue 5);
- (d) remove duplication associated with the use of the expert report for Intermittent Generation Facilities that have yet to enter service (issue 6); and
- (e) widen the consideration of transmission constraints to all network constraints in the assessment of Certified Reserve Capacity for a Facility that will be subject to a Network Control Service contract (issue 7).

4.11.1. Subject to clause 4.11.7, the IMO must apply the following principles in assigning a quantity of Certified Reserve Capacity to a Facility for the Reserve Capacity Cycle ~~to for which the a valid application for Certified Reserve Capacity, in compliance with section 4.10, has been submitted relates:~~

- (a) subject to paragraphs (d) and (e) and clause 4.11.2, the Certified Reserve Capacity for a Facility for a Reserve Capacity Cycle is not to exceed the IMO's reasonable expectation as to the amount of capacity likely to be available and able to be dispatched from that Facility, after netting off capacity required to serve Intermittent Loads, embedded loads and Parasitic Loads, ~~at daily peak demand times for Peak Trading Intervals on Business Days~~ in the period from the:
- (b) where the Facility is a generation system (other than an Intermittent Generator), the Certified Reserve Capacity must not exceed the sum of the capacities specified in clauses 4.10.1(e)(ii) and 4.10.1(e)(iii), and must not exceed the unconstrained level of network access as provided in 4.10.1(bA);
- ...
- (d) ~~[Blank] the IMO must assign Certified Reserve Capacity for Intermittent Generators that are already operating equal to the Relevant Level determined in accordance with clause 4.11.3A but subject to (b), (c), (f), (g), (h) and (i).~~

- (e) ~~[Blank] the IMO must assign Certified Reserve Capacity to an Intermittent Generator that is yet to commence operation based on:~~
- ~~i. the Certified Reserve Capacity estimate contained in any report provided by the applicant in accordance with clause 4.10.3, where:~~
    - ~~1. the report was produced by an expert accredited by the IMO in accordance with clause 4.11.6; and~~
    - ~~2. the estimate reflects what the expert considers the Certified Reserve Capacity of the Facility would have been for the purposes of clause 4.11.2(b) had a history of performance been available.~~

...

- (g) in respect of a Facility that will be subject to a Network Control Service contract, the IMO must not assign Certified Reserve Capacity in excess of the capacity that the IMO believes that Facility can usefully contribute given its location and any transmission-network constraints that are likely to occur;

...

The following change to section 4.11 will ensure that Certified Reserve Capacity can only be assigned to a Facility for which a valid application has been submitted in compliance with section 4.10, as proposed in the discussion of Issue 2.

- 4.11.2. Where an applicant submits a valid application for Certified Reserve Capacity, in compliance with section 4.10, and nominates under clause 4.10.1(i) to have the IMO use the methodology described in clause 4.11.2(b) to apply to a Scheduled Generator or a Non-Scheduled Generator, the IMO:

...

The following amendment will clarify that the IMO can reject the expert report for Intermittent Generation Facilities that have yet to enter service in assigning Certified Reserve Capacity, as proposed in the discussion of Issue 6.

- 4.11.3A. The Relevant Level in respect of a Facility at a point in time is determined by the IMO following these steps:

...

- (c) If the Generator has not entered service, or if it entered service during the period referred to in step (a), estimate the amount of electricity (in MWh) that would have been sent out by the facility, had it been in service, for all Trading Intervals occurring during the period referred to in (a) which are prior to it entering service. The IMO must use the estimates included in the

expert report provided in accordance with clause 4.10.3, unless it reasonably believes the report to be inaccurate; and

The following amendment updates a reference in relation to the provision of network access information, in line with the changes proposed in the discussion of Issue 5.

4.11.5. In assigning Certified Reserve Capacity to a Facility, the IMO may:

- (a) require Network Operators to confirm that the data and information related to clause 4.10.1 (bA)(e)(i) provided to the IMO by or on behalf of an applicant for Certified Reserve Capacity is complete, accurate and up to date; and

...

The following new clause will require the IMO to review any information relating to a Facility, provided by a Market Participant, which has changed since that Facility was granted Certified Reserve Capacity and will allow the IMO to determine whether the changes require the IMO to reassess the assignment of Certified Reserve Capacity for that Facility, as proposed in the discussion of Issue 11.

4.11.10. Upon the receipt of a submission provided in accordance with clause 4.10.4 for a Facility that has already been assigned Capacity Credits for the relevant Capacity Year, the IMO must review the information provided and decide whether it is necessary for the IMO to reassess the assignment of Certified Reserve Capacity to the Facility. If this information would have resulted in the IMO assigning a lower, non-zero level of Certified Reserve Capacity the IMO must reduce the Capacity Credits assigned to that Facility accordingly and must advise the Market Participant within 90 days of receiving the submission.

The following changes will clarify the timing of the assignment of Capacity Credits to Facilities, as proposed in the discussion of Issue 1.

4.15.1. If the information provided under clauses 4.14 and 4.28C indicates that no Certified Reserve Capacity is to be made available in the Reserve Capacity Auction for a Reserve Capacity Cycle, or, based on the information received under clause 4.14, the IMO considers that the Reserve Capacity Requirement for the Reserve Capacity Cycle will be met without an auction, then, by the date and time specified in clause 4.1.16, the IMO must assign Capacity Credits to all Certified Reserve Capacity that is accepted under the methodology in Appendix 3 and must publish a notice specifying for that Reserve Capacity Cycle:

...

- (cA) the Capacity Credits assigned, by Facility, under clause 4.28C;

(cB) the Capacity Credits assigned, by Facility;

...

4.20.1. Where the Reserve Capacity Auction has been held, each Market Participant must, by the date and time specified in clause 4.1.20, notify the IMO of:

- (a) the total number of Capacity Credits each Facility will provide during the Capacity Year commencing on 1 October of Year 3 of the Reserve Capacity Cycle, subject to paragraph (c); and
- (b) the number of those Capacity Credits the Market Participant anticipates will be acquired by the IMO ~~has acquired as a result of the Reserve Capacity Auction;~~ subject to paragraph (d);

...

4.20.5A Following the receipt of notifications under clause 4.20.1, the IMO must, by the date and time specified in clause 4.1.21A, assign Capacity Credits to Facilities consistent with the number of Capacity Credits notified by each Market Participant in accordance with clause 4.20.1 and must publish the Capacity Credits assigned, by Facility.

4.27.10. Subject to clauses 4.27.11C and 4.27.10A, Market Participants holding Capacity Credits for Facilities that are yet to commence operation must file a report on progress with the IMO at least once every three months from the date the Capacity Credits are ~~is confirmed under~~ clause 4.15.1 or clause 4.20.5A.

The following change will remove the IMO's obligation to repeatedly reject progress reports for a Facility that will commence operation late, as proposed in the discussion of Issue 12.

4.27.11A On receiving the report described in clause 4.27.10 or clause 4.27.10A, the IMO must conduct an assessment and approve or not approve the current nominations for each date provided in accordance with clause 4.27.11 where the current nomination differs from the previous nomination and would result in a change to the date from which Reserve Capacity Obligations apply for that Facility. ~~The IMO must not approve a nomination for a date which would have prevented the IMO from assigning Certified Reserve Capacity to a Facility.~~

The following changes will remove the erroneous references to Registered Facilities, as proposed in the discussion of Issue 8.

4.28C.1. This section 4.28C is applicable to ~~Registered~~ Facilities to which the following conditions apply:

...

- 4.28C.2 A Market Participant with a ~~Registered~~ Facility that meets the criteria in 4.28C.1 may apply to the IMO, at any time ~~between the date when the Facility was registered under Chapter 2 and before~~ 1 January of Year 1 of the Capacity Cycle to which the application relates, for certification of Capacity and Capacity Credits for that Facility (“Early Certified Reserve Capacity”).

The following change will allow the IMO to publish the level of Certified Reserve Capacity assigned to each Facility, as proposed in the discussion of Issue 10.

- 10.5.1 The IMO must set the class of confidentiality status for the following information under clause 10.2.1, as Public and the IMO must make each item of information available from the Market Web-Site after that item of information becomes available to the IMO:

...

- (f) the following Reserve Capacity information (if applicable):

...

- iiiA. for each Market Participant that was assigned Certified Reserve Capacity, the level of Certified Reserve Capacity assigned to each Facility for each Reserve Capacity Cycle;

...

The following changes will change the phrase “Access Contract” to “Access Proposals” as proposed in the discussion of Issue 4.

(In Glossary)

**Access Proposal Offer:** Has the meaning given in clause 4.2.7(b)(ii)(1).

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

The IMO’s assessment of the impact of each of the discrete proposed changes is presented below:

##### ***Issue 1: Reserve Capacity Mechanism Timelines***

The IMO considers the proposed changes to the Reserve Capacity Mechanism timeline will be consistent with the Wholesale Market Objectives.

##### ***Issue 2: Requirement for valid application to be submitted for Certified Reserve Capacity***



The IMO considers the changes proposed to specifically require Market Participants to provide a valid application for Certified Reserve Capacity will have the following impact on the Market Objectives:

Impact	Market Objectives
Allow the Market Rules to better address the objective.	a
Consistent with objective.	b, c, d, e
Inconsistent with objective.	

The IMO considers that the proposed amendments will promote the safe and reliable supply of electricity in the SWIS (Market Objective (a)). In particular, the IMO considers that by ensuring certification of facilities is based on a correct and valid application the capacity requirements of the SWIS will be adequately met.

### ***Issue 3: Clarification of Required Availability***

The IMO considers the changes clarifying the required availability will have the following impact on the Market Objectives:

Impact	Market Objectives
Allow the Market Rules to better address the objective.	a, c
Consistent with objective.	b, d, e
Inconsistent with objective.	

The IMO considers that relaxing the currently onerous provision for peaking plant to have sufficient fuel for 14 hours a day 10 months of the year will ensure that all energy options and technologies are equivalently treated (Market Objective (c)). In particular, the IMO considers the Market Rules currently unnecessarily discriminate against peaking plant.

Additionally, the IMO considers that clarifying that Non-Scheduled Generators, that are unable to increase output when instructed by System Management, can not be certified under the methodology described under clause 4.11.1(a) will promote the safe and reliable supply of electricity in the SWIS (Market Objective (a)). By ensuring that facilities are certified via the correct methodology, the availability of the Facility for the purposes of supplying capacity during peak periods will be correctly identified for the purposes of System Management.

The IMO considers the proposed amendments to clarify that a dual-fuelled facility must be able to operate for 12 hours at the requested level of Certified Reserve Capacity is consistent with the Market Objectives.

### ***Issue 4: Transmission Access Requirements***

The IMO considers the changes proposed to the terminology of transmission access requirements will be consistent with the Wholesale Market Objectives.

### ***Issue 5: Widen requirement for provision of environmental and transmission access approvals***

The IMO considers that the changes to require evidence of transmission access and environmental approval for all Facilities and the expansion of the consideration of network constraints that may impact the availability of the capacity will have the following impact on the Market Objectives:

<b>Impact</b>	<b>Market Objectives</b>
Allow the Market Rules to better address the objective.	a
Consistent with objective.	b, c, d ,e
Inconsistent with objective.	

The IMO considers that consideration of up-to-date transmission access and environmental approvals in the certification process for existing facilities will help ensure the required level of reliable capacity available in the SWIS. Further by ensuring that any network constraints, for both new and existing facilities, are taken into account the safety and reliability of the SWIS will be promoted (Market Objective (a))

### ***Issue 6: Clarification around Intermittent and other Non-Scheduled Generators***

The IMO considers the changes clarifying the Market Rules around Intermittent and other Non-Scheduled Generators will have the following impact on the Market Objectives:

<b>Impact</b>	<b>Market Objectives</b>
Allow the Market Rules to better address the objective.	a
Consistent with objective.	b, c, d, e
Inconsistent with objective.	

The IMO considers that the ability to consider the validity of an expert report will ensure facilities are assigned Certified Reserve Capacity on the most appropriate basis. This will promote Power System Security and reliability by ensuring the capacity requirements for the SWIS are met by the IMO during certification (Market Objective (a)).

The IMO considers that the other proposed amendments to:

- clarify that the same expert report may be provide under the Facility has operated for the full period of its performance assessment;
- stipulate that an expert report must also be provided by an in-service Facility that has not yet operated for the full period of performance assessment; and
- remove unnecessary duplication in the Market Rules,

are consistent with the Wholesale Market Objectives.

### ***Issue 7: Transmission or other network constraints***

The IMO considers the change to consider network constraints and not just transmission constraints when assigning Capacity Credits for Facilities subject to Network Control Service Contracts will have the following impact on the Market Objectives:

Impact	Market Objectives
Allow the Market Rules to better address the objective.	a
Consistent with objective.	b, c, d, e
Inconsistent with objective.	

The IMO considers that by ensuring facilities with a Network Control Service contract are assigned capacity credits based on network constraints and not just transmission constraints will promote power system security and reliability (Market Objective (a)). Certification of capacity that is based on all known constraints will ensure that adequate capacity is secured for the SWIS.

### ***Issue 8: Erroneous references to “Registered Facilities”***

The IMO considers that the correction of references to “Registered Facilities” is consistent with the Wholesale Market Objectives.

### ***Issue 9: Provision of calculations on which the IMO’s assessment is based.***

The IMO considers the change to only provide details of the calculations on which the IMO’s assessment was based if requested will have the following impact on the Market Objectives:

Impact	Market Objectives
Allow the Market Rules to better address the objective.	a
Consistent with objective.	b, c, d, e
Inconsistent with objective.	

The IMO considers that by only requiring the IMO to provide information if requested by a Market Participant this will promote the allocative efficiency of IMO resources (Market Objective (a)).

### ***Issue 10: Publication of Certified Reserve Capacity information by Facility***

The IMO considers the change to publish the quantity of Certified Reserve Capacity assigned to each Facility on the same day that each Market Participant is notified of its Certified Reserve Capacity will have the following impact on the Market Objectives:

Impact	Market Objectives
Allow the Market Rules to better address the objective.	b

Consistent with objective.	a, c, d, e
Inconsistent with objective.	

The IMO considers that publishing information of Certified Reserve Capacity assigned to Facility will promote greater transparency of the quantities assigned to each Facility. The IMO considers that this will promote greater competition in the SWIS (Market Objective (b))

***Issue 11: Changes to Facility design after Capacity Credits awarded or Maintenance of data provided for Certification of Reserve Capacity***

The IMO considers the change to require Market Participants to provide details of the main components of their Facility in their application for Certified Reserve Capacity, and advise the IMO of any changes to this information will have the following impact on the Market Objectives:

Impact	Market Objectives
Allow the Market Rules to better address the objective.	a
Consistent with objective.	b, c, d, e
Inconsistent with objective.	

The IMO considers that by requiring information on the main components of a facility and advice of any subsequent changes the IMO will be able to ensure that the facility is correctly certified based on its specific attributes. This will promote security and reliability in the SWIS by ensuring that capacity requirements are met during certification (Market Objective (a))

***Issue 12: Repeated rejection of progress reports by IMO***

The IMO considers the change to no longer require the IMO to repeatedly inform a late facility that its progress report is rejected will have the following impact on the Market Objectives:

Impact	Market Objectives
Allow the Market Rules to better address the objective.	a
Consistent with objective.	b, c, d, e
Inconsistent with objective.	

The IMO considers that by not being required to repeatedly inform a Market Participant of a reject of its progress report if it is late the allocative efficiency of IMO resources will be promoted (Market Objective (a))

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

### Costs:



The IMO would require some changes to its internal operating procedures.

The IMO would be required to amend the Reserve Capacity Market Procedures.

Market Participants may require some minor changes to systems and internal procedures.

A process fee would be charged to a Market Participant where that Market Participant makes changes to the design of a Facility that require a reassessment to confirm that the Facility still meets the requirements for Certified Reserve Capacity. It is proposed to that the reapplication fee will be aligned with the fee for an application for conditional certification or a subsequent application for Early Certified Reserve Capacity.

**Benefits:**

Clarity of process and appropriate timelines will assist new investors, current Market Participants and the IMO.

The requirements for Certified Reserve Capacity will be strengthened, providing greater assurance of reliability of the supply of electricity.

---

## Agenda item 5d:

### Wholesale Electricity Market Pre Rule Change Discussion Paper

---

**Change Proposal Number:** PRC\_2010\_20

**Received Date:** TBA

#### Submitted by

<b>Name:</b>	Barbara Sole
<b>Phone:</b>	92544345
<b>Fax:</b>	(08) 9254 4399
<b>Email:</b>	<a href="mailto:barbara.sole@imowa.com.au">barbara.sole@imowa.com.au</a>
<b>Organisation:</b>	IMO
<b>Address:</b>	
<b>Date submitted:</b>	TBA
<b>Urgency:</b>	Medium
<b>Change Proposal title:</b>	<b>Market Fees</b>
<b>Market Rule(s) affected:</b>	2.23.9, 2.23.11, 2.24.2 and 9.16.2 and new clauses 2.23.9A, 2.23.9B, 2.24.2A, 2.24.2B.

---

## Introduction

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

**Independent Market Operator**

Attn:Troy Forward, General Manager Development

PO Box 7096

Cloisters Square, Perth, WA 6850

Fax: (08) 9254 4399

Email: [market.development@imowa.com.au](mailto:market.development@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.

---

## **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:**

#### **Background**

Each year the IMO recovers its budget, System Management's costs and the portion of the Economic Regulation Authority (ERA)'s budget relating to Wholesale Electricity Market activities through a per MWh fee applied to generation and consumption in the South West interconnected system.

The process for determining the IMO's budget (and associated Market Fee rate) is prescribed in clause 2.22 of the Wholesale Electricity Market Rules (Market Rules). In simplified form, the process is as follows:

- The IMO submits its budget proposal for the forthcoming year to the Minister by 30 April (clause 2.22.5);
- The Minister makes a decision on the budget proposal within 30 Business Days (clause 2.22.9); and
- Once the Minister makes a decision the IMO publishes the approved budget within five Business Days (clause 2.22.11).

If the Minister does not make a decision by the start of the new Financial Year, the Market Rules provide that the Market Fees derived from that budget from the previous year will continue to apply (clause 2.22.10).

System Management's fee rate is derived from its confirmed budget, which is to be provided by System Management to the IMO for publication by 30 June of each year (clause 2.23.11). Note that the IMO must confirm that System Management's proposed budget is consistent with the Allowable Revenue determined by the ERA (clause 2.23.9).

The ERA's fee rate is based on the information it provides to the IMO on the dollar amount it may recover under clause 2.24.5 of the Market Rules.

From the IMO's approved budget, System Management's confirmed budget and the information provided by the ERA, the IMO determines and publishes the fee rates that will apply from 1 July onwards (clause 2.24.2). This information must be published before 30 June each year.

#### **Issue**

There is currently a disconnect in the process. The IMO must determine the fees charged to Rule Participants by 30 June each year, but two of the inputs to that process are not linked to fixed dates:

- the Minister's approval of the IMO's initial budget; and
- the IMO's confirmation of System Management's revised budget as being consistent with the Allowable Revenue determined by the ERA.

The deadline in clause 2.24 for publishing Market Fees, System Operation Fees and Regulatory Fees is therefore achievable only if:

- the Minister makes a decision (under clause 2.22.9) before that date required by the Market Rules<sup>1</sup>,
- System Management provides a budget that is consistent with its Allowable Revenue to the IMO on time; and
- the ERA provides its notification under clause 2.24.6 on time.

If the Minister, System Management or the ERA is late, the IMO is not able to publish the new schedule of the fees for the new Financial Year before 30 June. This occurred in 2010 when the publication of the 2010 Market Fees was delayed as the IMO's budget was not approved by the Minister prior to 30 June. To ensure transparency of this delay to Market Participants a notice was published on the IMO website.

## **Proposal**

The IMO proposes to correct this anomaly by amending the Market Rules so that the IMO will publish either a level of fee rate or in the case where the IMO does not have the required inputs an expected level of fee rate (that will later be revised when the required inputs are available) before 30 June. The IMO will determine the:

- expected Market Fee rate, based on the budget (or revised budget) provided to the Minister for approval under clause 2.22; and
- expected System Operation Fee rate, based on the budget (or revised budget) System Management has provided to the IMO for confirmation under clause 2.23.9A or, in the case where System Management has not yet provided a budget proposal for the upcoming Financial Year to the IMO for confirmation, the previous year's confirmed budget; and
- expected Regulator Fee rate, based on the most recent information provided to the IMO by the Economic Regulation Authority under clause 2.24.6.

In the case where the IMO has published an expected fee rate for the IMO, System Management, or ERA (whichever is late) a revised fee rate will be published once the IMO:

- receives approval from the Minister; and/or

---

<sup>1</sup> Note that under clause 2.22.9(b) the Minister may refer the proposal back to the IMO for reconsideration. In this case the IMO must resubmit a revised proposal for the Ministers consideration in accordance with the 30 Business Day timeline specified in clause 2.22.9. In this case the budget proposal would not be approved by 30 June.



- confirms System Management's budget; and/or
- receives the necessary information the ERA.

Once a revised fee rate has been published it will be adjusted with effect from the start of the Financial Year.

The alternative to this approach would be to not publish any values until the IMO has an approved budget from the Minister, a confirmed budget from System Management and the necessary information from the ERA. The IMO considers that it is in the best interest of the market for all stakeholders to be provided with details of the expected fee rate by 30 June. This is because the publication of the expected fee rate, using the most up to date information available to the IMO, will ensure interested parties can take the expected values into account in their own budgeting for the coming Financial Year. Publication of an expected fee rate will also ensure that the Minister is provided with sufficient time to review the IMO's proposed budget and likewise that the IMO has sufficient time to review System Management's budget or revised budget for consistency with its Allowable Revenue.

The IMO also proposes to clarify the existing process that is undertaken by the IMO and System Management in confirming System Management's budget.

The proposed process for budget approval and determining Market Fees, System Operation Fees and Regulator fees to be paid by Market Participants is shown in the form of a flow chart in Appendix 1.

---

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

The IMO proposes that this Rule Change Proposal be progressed through the Standard Rule Change Process.

---

## 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)

The proposed amendment to clause 2.23.9 will remove the requirement for the IMO to review System Management's budget proposal and advise the Minister on the outcomes of this review. These requirements along with further details of the process will be provided in new clause 2.23.9A and 2.23.9B.

- 2.23.9. System Management must provide a copy of ~~the~~ its budget proposal to the IMO by 30 April each year. ~~The IMO must review the budget proposal and submit a report containing advice on whether System Management's budget is consistent with the Allowable Revenue determined by the Economic Regulation Authority to the Minister by 31 May.~~

The proposed new clause 2.23.9A will require the IMO to, within 20 Business Days, review System Management's budget proposal for consistency with its Allowable Review, notify System Management of the outcomes of its review and provide a notification to the Minister of the outcomes of its review.

2.23.9A Within 20 Business Days of receiving System Management's budget proposal the IMO must:

- (a) review its budget proposal to determine whether it is consistent with the Allowable Revenue determined by the Economic Regulation Authority;
- (b) notify System Management whether its proposed budget is confirmed as being consistent with the Allowable Revenue determined by the Economic Regulation Authority. If the IMO does not consider that System Management's budget proposal is consistent it must provide reasons why; and
- (c) notify the Minister that System Management's budget has been confirmed as being consistent with the Allowable Revenue determined by the Economic Regulation Authority, if applicable.

The proposed new clause 2.23.9B will clarify that where the IMO does not consider that System Management's budget is consistent with its Allowable Revenue, System Management will be required to reconsider the proposal and resubmit a revised budget for the IMO to review. The IMO notes that this is consistent with the current process undertaken by the IMO and System Management under these circumstances.

2.23.9B Where the IMO notifies System Management that its budget proposal is not consistent with the Allowable Review determined by the Economic Regulation Authority, System Management must reconsider its budget proposal, taking into account the reasons provided by the IMO, and submit a revised budget proposal to the IMO, in which case clause 2.23.9A applies to that revised budget proposal.

The proposed amendments to clause 2.23.11 will clarify that System Management must provide the IMO with a copy of the confirmed budget for publication.

2.23.11. System Management must provide the confirmed budget to the IMO and the IMO must publish the confirmed budget by 30 June each year.

The proposed amendment to clause 2.24.2 will provide that where the IMO has not received an approved budget from the Minister, confirmed the budget received from System Management, or been provided with the necessary information from the ERA before 30 June,

it must determine and publish an expected fee rate to apply until a revised rate can be determined.

In the case where System Management has not yet provided a budget proposal to the IMO for confirmation, the previous year's confirmed/approved budget will be used to determine the Market Fee rate or Regulator Fee rate as applicable. Likewise in the case where the ERA has not provided the information required under clause 2.24.6, the previous years values will be used by the IMO to determine the expected Regulator Fee rate.

2.24.2. Before 30 June each year, the IMO must determine and publish the level of the Market Fee rate, System Operation Fee rate and Regulator Fee rate and the level of each of the Application Fees to apply over the year starting 1 July. Where:

- (a) the Minister has not approved the IMO's budget proposal, the IMO will determine and publish the expected level of Market Fee rate for the IMO based on the most recent budget proposal (or revised budget proposal) provided to the Minister under clause 2.22.9;
- (b) the IMO has not confirmed System Management's budget proposal, the IMO will determine and publish the expected level of System Operation Fee rate for System Management based on the most recent budget proposal (or revised budget proposal) provided to the IMO under clause 2.23.9A; and
- (c) the Economic Regulation Authority has not provided the IMO with the information required under clause 2.24.6 by the date which is five Business Days prior to 30 June, the IMO will determine and publish the expected level of Regulator Fee rate based on the most recent information provided to the IMO by the Economic Regulation Authority under clause 2.24.6.

The proposed new clause 2.24.2A will clarify that in the case where information required to determine the Market Fee rate, System Operation Fee rate or Regulator Fee rate is provided late to the IMO and an expected fee rate has been published, the IMO will determine and publish revised fee rates within 5 Business Days of the relevant information becoming available.

2.24.2A The IMO must determine and publish a level of revised Market Fee rate, System Operation Fee rate or Regulator Fee rate (as applicable) within five Business Days of receiving the information, if in any year:

- (a) the Minister's notifies approval of the IMO budget proposal later than 30 June; or

- (b) System Management's budget is confirmed by the IMO under clause 2.23.9A(b) later than 30 June; or
- (c) the Economic Regulation Authority provides the IMO with the information required under clause 2.24.6 later than the date which is five Business Days prior to 30 June.

The proposed new clause 2.24.2B will specify that revised fee rates will supersede any expected fee rates previously determined by the IMO and are recoverable from Rule Participants in arrears. The revised fee rates will apply from the start of the relevant Financial Year. The IMO notes that the amendments to allow for fees to be recoverable in arrears are consistent with the current approach applied in market settlement. That is when revised metering data is received further adjustments are made to Market Participants settlement statements.

2.24.2B A revised Market Fee rate, System Operation Fee rate and Regulator Fee rate will supersede any expected Market Fee rate, System Operation Fee rate and Regulator Fee rate and are recoverable from Market Participants in arrears with effect from the start of the Financial Year to which they apply.

The proposed amendment to clause 9.16.3 will allow for the level of Market Fee rate, System Operation Fee rate and Regulator Fee rate to be applied from 1 July of the relevant year in arrears in the case where the Minister does not approve the IMO's budget until after June 30, or if System Managements budget is not confirmed by the IMO or if the ERA does not provide the IMO with details of the dollar amount it may recover under clause 2.24.5

- 9.16.3. The IMO must undertake a process for adjusting settlements ("**Adjustment Process**") at least once every three months. The purpose of the process is to review the relevant Settlement Statements which were issued in the 12 months prior to the commencement of the Adjustment Process ("**Relevant Settlement Statements**") to facilitate corrections resulting from Notices of Disagreement, the resolution of Disputes, and revised metering data provided by Metering Data Agents and any revised Market Fee rate, System Operation Fee rate or Regulator Fee rate (as applicable). Adjustments may only be made to Relevant Settlement Statements. Adjustments may not be made to Settlement Statements outside of an Adjustment Process.

---

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

The IMO considers that the proposed changes will correct a current anomaly in the Market Rules which would result in the IMO not having a current schedule of fees to publish if any of

the inputs into that process are late in being provided. The proposed changes will also clarify that once the inputs are provided, revised fee rates will be published and will apply in arrears. The IMO considers that the proposed amendments will improve the integrity of the Market Rules and therefore are consistent with the Wholesale Market Objectives.

---

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

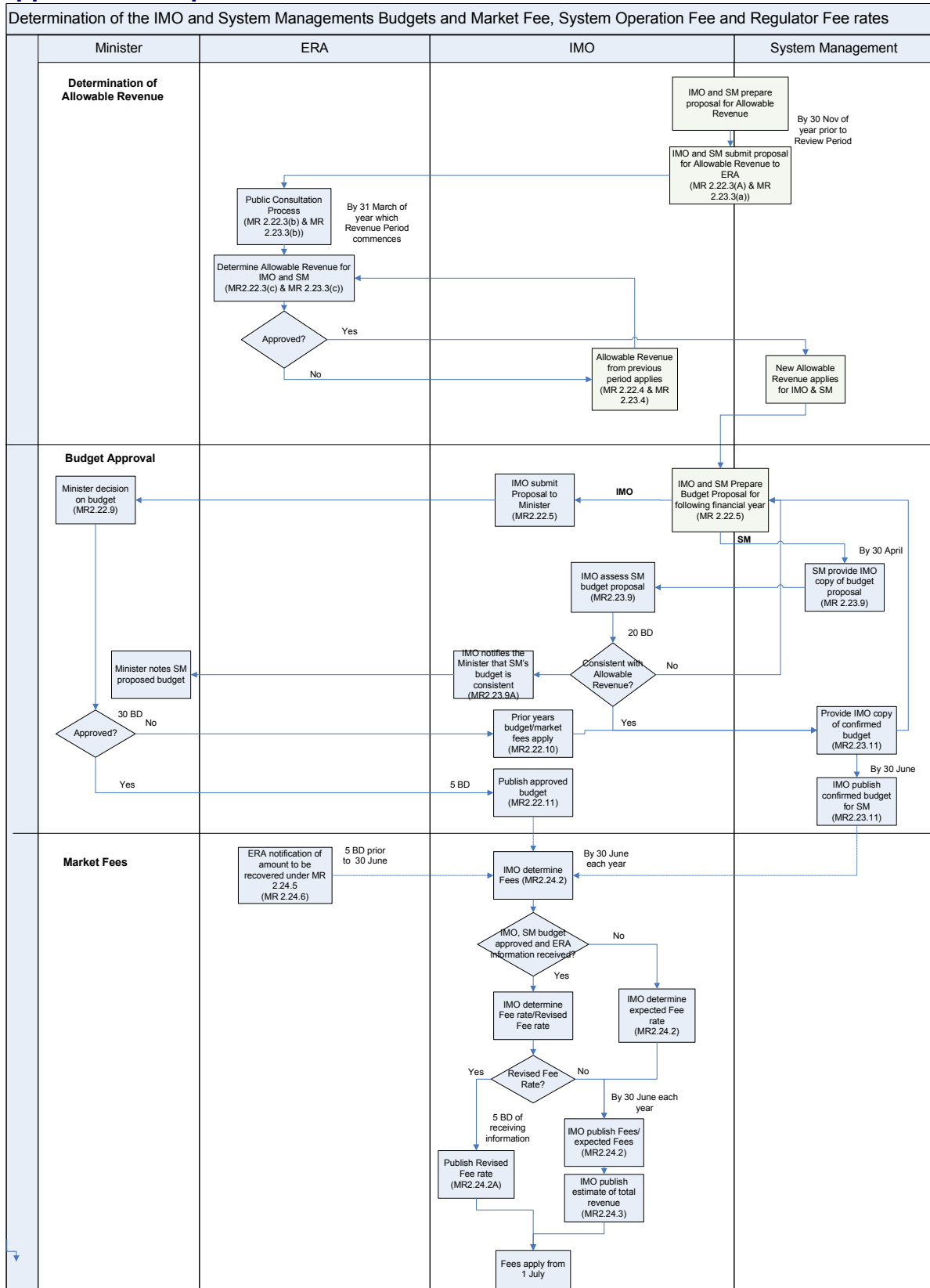
### **Costs:**

- The IMO will encounter settlement systems costs associated with undertaking an adjustment process which takes into account any revised Market Fees.

### **Benefits:**

- Greater clarity over the application of Market Fees in arrears in the case where the Minister is late in approving the IMO's budget, System Management's budget is not confirmed as being consistent with its Allowable Revenue and/or the ERA is late in providing the IMO with details of the dollar amount it may recover under clause 2.24.5.
- Remove a current anomaly in the Market Rules around the requirement for the IMO to publish its Market Fee rates before June 30 despite it being possible that the Minister may not have approved the IMO's budget.

## Appendix 1: Proposed Revised Process





## Agenda Item 6a: Overview of Recent and Upcoming IMO and System Management Procedure Change Proposals

### Legend:

<b>Shaded</b>	Shaded rows indicate procedure changes that have been completed since the last MAC meeting.
<b>Unshaded</b>	Unshaded rows are procedure changes still being progressed.

Change ID	Title	Brief overview of changes	Status	Next Step(s)	Date
<b>IMO Procedure Change Proposals</b>					
PC_2009_04	Certification of Reserve Capacity	The proposed updates are to: <ul style="list-style-type: none"> <li>• Provide for an application form and checklist to be part of the application;</li> <li>• Specify some of the information requirements in more detail;</li> <li>• Provide improved decision making support to the IMO; and</li> <li>• Provide guidance when the IMO can request further information from applicants.</li> </ul>	Undergoing further development.	<ul style="list-style-type: none"> <li>• IMO to update with comments from Working Group meeting.</li> <li>• IMO will present updated version of the Market Procedure to Working Group (September 2010).</li> <li>• IMO to submit into the Procedure Change Process.</li> </ul>	September 2010
PC_2009_09	Supplementary Reserve Capacity (SRC)	The proposed new Market Procedure describes the process that the IMO and System Management will follow in: <ul style="list-style-type: none"> <li>• acquiring Eligible Services,</li> <li>• entering into SRC Contracts;</li> </ul>	Undergoing further development.	<ul style="list-style-type: none"> <li>• IMO to update with comments from Working Group meeting.</li> <li>• IMO will present updated version of the Market</li> </ul>	September 2010

Change ID	Title	Brief overview of changes	Status	Next Step(s)	Date
		<ul style="list-style-type: none"> <li>determining the maximum contract value per hour of availability for any contract; and</li> <li>Details the information that is required to be exchanged.</li> </ul> <p>This Market Procedure needs to be published (as required by the Market Rules) and will be revised following any rule changes (if applicable).</p>		<p>Procedure to Working Group (September 2010).</p> <ul style="list-style-type: none"> <li>IMO to submit into the Procedure Change Process.</li> </ul>	
PC_2010_01	Procedure Administration	The proposed update is to revise to conform to recently adopted style changes.	Out for submissions.	<ul style="list-style-type: none"> <li>Submissions close.</li> </ul>	September 2010
PC_2010_02	Notices and Communications	The proposed update is to revise to conform to recently adopted style changes.	Out for submissions.	<ul style="list-style-type: none"> <li>Submissions close.</li> </ul>	September 2010
PC_2010_03	Monitoring Protocol	<p>The proposed updates are to:</p> <ul style="list-style-type: none"> <li>Allow the IMO to disclose the identity of System Management as a participant that notifies us of alleged breaches; and</li> <li>Update to conform to recently adopted style changes.</li> </ul>	Undergoing further development.	<ul style="list-style-type: none"> <li>IMO to update with comments from Working Group meeting.</li> <li>IMO will present updated version of the Market Procedure to Working Group (September 2010).</li> <li>IMO to submit into the Procedure Change Process.</li> </ul>	September 2010
PC_2010_04	Determination of the Maximum Reserve Capacity Price	<p>The proposed updates are to reinstate the 2009 MRCP Major Component values (removed as part of PC_2009_12).</p> <p>N.b. This Market Procedure has not been updated to reflect the IMO's recently adopted style given it is currently under further review by the MRCPWG. Further changes are expected following this the outcomes of the MRCPWG.</p>	Out for submissions.	<ul style="list-style-type: none"> <li>Submissions close.</li> </ul>	September 2010
PC_2010_05	Reserve Capacity Performance Monitoring	<p>The proposed updates are to:</p> <ul style="list-style-type: none"> <li>Include the changes to the Amending Rules</li> </ul>	Undergoing further	<ul style="list-style-type: none"> <li>IMO to update with comments from Working</li> </ul>	September 2010



Change ID	Title	Brief overview of changes	Status	Next Step(s)	Date
		<p>arising from RC_2010_11, RC_2009_19 and RC_2010_02;</p> <ul style="list-style-type: none"> <li>Update to conform to recently adopted style changes.</li> </ul>	development.	<p>Group meeting.</p> <ul style="list-style-type: none"> <li>IMO will present updated version of the Market Procedure to Working Group (September 2010).</li> <li>IMO to submit into the Procedure Change Process.</li> </ul>	
<b>System Management Procedure Change Proposals</b>					
PPCL0016	Monitoring and Reporting Protocol	<p>The proposed updates are to provide further details around how System management will determine and review the annual Tolerance Range and any Facility Tolerance Ranges to apply for the purposes of clause 7.10.1 and 3.21 of the Market Rules.</p> <p>The proposed updates will ensure consistency with the requirements of RC_2009_22 and in particular the new clause 2.13.6K.</p>	Under development	To be discussed at a Working Group meeting, date to be advised.	TBA

## Agenda Item 7a: Working Group Overview

### 1. WORKING GROUP OVERVIEW

Working Group (WG)	Status	Date commenced	Date concluded	Latest meeting date	Next scheduled meeting date
Reserve Capacity 2007 WG	Closed	Feb 07	May 07	-	-
NTDL WG	Closed	Oct 07	Nov 07	-	-
Energy Limits WG	Closed	Dec 07	Jan 08	-	-
DSM WG	Closed	Jan 08	May 08	-	-
SRC WG	Closed	Jun 08	Sept 08	-	-
Reserve Capacity 2008/09 WG	Closed	Dec 08	Jan 09	-	-
Renewable Energy Generation WG	Active	Mar 08	Ongoing	12/08/2010	02/09/2010
System Management Procedures WG	Active	Jul 07	Ongoing	12/11/2009	TBA
IMO Procedures WG	Active	Dec 07	Ongoing	27/07/2010	28/09/2010
Maximum Reserve Capacity Price WG	Active	May 10	Ongoing	23/08/2010	15/09/2010
Rules Development Implementation WG	Active	Aug 10	Ongoing	07/09/2010	30/09/2010

## Agenda Item 7b: MRCPWG Update

### 1. OVERVIEW OF PROGRESS TO DATE

The MRCPWG last met on 23 August 2010, with the next meetings provisionally scheduled for 15 September and 29 September 2010.

The IMO has finalised scope of work documents for Consultant services to review the WACC and deep transmission cost determinations. These documents have been reviewed by Working Group members and the IMO is currently in the process of preparing tender documentation for the two work scopes, pending direction on the WACC assumption of a Reserve Capacity Auction as discussed in item 2 below.

The Working Group has continued to review several of the cost components. The following elements have been agreed by the Working Group thus far:

- Western Power is the appropriate party to determine shallow connection costs;
- The IMO should continue to determine the WACC with the ERA reviewing this in its approval of the MRCP in accordance with clause 2.26.1 of the Market Rules;
- The appropriate power station type is an Open Cycle Gas Turbine with low NOx burners and inlet cooling, operating on distillate with 2% capacity factor;
- 160 MW is the appropriate quantity of capacity, although the Working Group will explore whether there is value in having this provided as a single 160 MW facility or multiple smaller facilities;
- The Fixed Fuel Cost should include an allowance to maintain sufficient fuel levels for 14 hours of operation at all times, not 12 hours as currently indicated in the Market Procedure;
- The current methodology for determining Fixed Operation and Maintenance Costs is appropriate;
- Landgate is the appropriate party to determine shallow connection costs;
- The current list of land locations is appropriate, although there should be greater flexibility to add to the list where appropriate; and
- A Market Participant may not be required to purchase any required buffer zone if the facility was located in an industrial precinct, so the land size should be standardised to 3 ha with the stipulation that the buffer zone must exist where required.

### 2. ASSUMPTION THAT RESERVE CAPACITY AUCTION IS HELD

The Chair of the MRCPWG has raised concerns about the application of the MRCP framework which is based on the assumption that capacity is successfully scheduled through a Reserve Capacity Auction and receives a 10-year Special Price Arrangement.



The construct of the rules lead the MRCP to be based on this assumption, which may affect the way the WACC is determined. The MRCPWG has agreed to proceed with the review using the current methodology and assumptions. It is acknowledged that the RCM continues to successfully attract sufficient investment and supply of capacity despite the difference that occurs between the construct of the rules and the way capacity is being delivered in practice.

One option would be to consider review of the basis for determining the MRCP before proceeding any further with the more procedural aspects of the review.

This MRCP WG is expected to review:

- the basis for determining the Maximum Reserve Capacity Price;
- the structural methodology by which the Maximum Reserve Capacity Price is computed each year; and
- the method the IMO uses to estimate each of the constituent components of the Maximum Reserve Capacity Price.

While it might be desirable to review the basis of the MRCP calculation before completing the procedural aspects of the review, there is already a significant level of review and reform underway in other sectors of the market at present.

The MAC is requested to discuss this issue and provide any guidance it sees fit to the MRCPWG.

### 3. RECOMMENDATIONS

It is recommended that the MAC:

- **Note** this update; and
- **Consider** whether the current WACC assumption that an auction is held is valid.

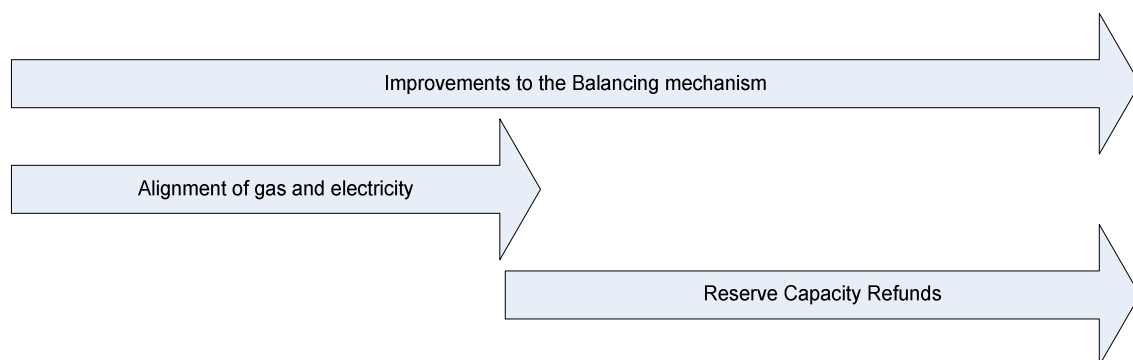
## Agenda Item 7c: RDIWG Update

### 1. OVERVIEW OF PROGRESS TO DATE

The RDIWG met for the first time on Friday 27 August 2010, with meetings scheduled every two to three weeks through to March 2011.

At the first meeting, the RDIWG:

- reviewed and agreed its Terms of Reference;
- agreed the prioritisation of issues; and
- agreed to the development of solutions to the priority issues in parallel, as shown below (not to time scale).



The IMO and its Consultants will present analysis around the alignment of gas and electricity nominations at the 7 September 2010 meeting.

The following will be discussed at subsequent meetings:

- Review of a continuum of options around introducing competition into the Balancing mechanism;
- Review of a stylised day (System Management) with regards to unit commitment and de-commitment, timing and price etc;
- Workshopping the overnight issues with regard to Balancing Support Contract options;
- Investigation of whether a simple price curve could be used to support competitive Balancing; and
- Further scoping regarding the Reserve Capacity refund issue.

### 2. RECOMMENDATIONS

It is recommended that the MAC **note** this update.



## Agenda Item 8a: Curtailable Loads Project Update

### 1. BACKGROUND

At the 12 May 2010 Market Advisory Committee (MAC) meeting the IMO presented an issues paper on Curtailable Loads (CLs) in the Wholesale Electricity Market (WEM) Rules (Market Rules). The issues addressed were:

1. Registration of CLs;
2. Facility Definition;
3. Market Fees;
4. Measurement of CL performance;
5. Capacity Cost refunds;
6. Reserve Capacity Security; and
7. Stipulated Default Loads.

The issues paper was supplemented with a further analysis paper at the 11 August 2010 MAC meeting regarding the measurement of CL performance (Relevant Demand Analysis).

At both these meetings the MAC agreed to a number of recommendations. This paper outlines solutions to the recommendations which were previously agreed (issues 1, 2 and 4). No action was required for issue 3 and subsequent papers to the MAC will address issues 5 – 7.

The IMO has committed to presenting solutions to each of the recommendations associated with the CL project to the MAC in consecutive meetings so as to reduce the complexity of the process.

### 2. INTRODUCTION

Market Participants that are electricity retailers serve numerous domestic, commercial and industrial users (Loads). Most of these will be Non-Dispatchable Loads<sup>1</sup> (NDLs), for which there are currently no registration provisions in the Market Rules. Some users are willing to curtail their energy usage at times of high peak demand or at times of system stress under contract. Demand side management (DSM) providers aggregate such users to form Curtailable Loads (CLs) in order to receive payment for providing Reserve Capacity. Clause 2.30.3 of the Market Rules facilitates this practice.

Users can also form part of a Demand Side Programme (DSP) and may interact with the energy market through one Market Participant (their electricity retailer) and with the capacity mechanism through a different Market Participant (their DSP provider). One key issue with this is that the Market Rules do not currently allow for a Load to be registered to two Market Participants.

---

<sup>1</sup> A Load which is not a Dispatchable Load, a Curtailable Load or an Interruptible Load, and is therefore self-scheduled.

The IMO has undertaken a review of the Market Rules relevant to Curtailable Loads, incorporating analysis from the earlier DSM Working Group, the Rule Change Proposal: DSM – Operational Issues (RC\_2008\_20)<sup>2</sup> and the agreed outcomes from previous MAC discussions.

Some elements of the Market Rules surrounding CLs are inconsistent with the treatment of other capacity types, inconsistent with the way the IMO has applied the Market Rules in the past, inconsistent with common practice in other jurisdictions, or are impractical. The IMO intends to ensure that DSM options in the market are treated in a similar manner to other capacity types.

Currently the IMO is required to assess the appropriateness of a CL which makes up a DSP. The IMO considers it appropriate that the risks associated with non-compliance of CL's for the provision of demand reduction services are borne by the DSP provider. This is rather than the IMO being responsible for determining "acceptable" CLs.

Another issue that has been identified during the course of the review is that there may be a need for transitional arrangements for the Market Participants with CLs currently registered. The IMO will consult directly with relevant Market Participants regarding this.

### 3. ISSUES AND PROPOSED SOLUTIONS

#### *Issue 1: Registration of CLs*

**Overview:** Currently, if a DSP provider wishes to use a Load to fulfil the obligations of its DSP, the IMO is required to register the comprising Load as a CL belonging to the DSP provider. This has a number of flow-on effects in the calculation of the energy associated with that Load because the Load now "belongs" to two different Market Participants:

- firstly as a NDL to the energy provider (as supported by the Meter Registry); and
- Secondly as a CL to the DSP provider.

Since Energy Market Commencement the IMO has allowed the registration of CLs to DSP providers who are not also the energy provider.

**Agreed Outcome:** The MAC endorsed the IMO's recommendation to amend the Market Rules so that a Market Participant other than the Market Customer is able to contract for the capacity associated with a CL (12 May 2010 MAC meeting).

**The IMO's proposed solution:** To implement the recommendation the IMO proposes to remove the concept of a CL as a Registered Facility from the Market Rules and replace this with the concept of the DSP being the Registered Facility. The DSP will then have NDLs associated with it for the purposes of capacity obligations, dispatch and settlements.

#### *Issue 2: Facility Definition*

**Overview:** The Market Rules treat a DSP as a single (aggregated) Facility for some purposes, and as individual Facilities for other purposes. The Market Rules imply that a DSP provider applies for certification of Reserve Capacity for the DSP as a whole, and that it will be treated as a single CL (clause 4.8.3). However, clause 4.8.3(b) suggests that the Loads comprising a

---

<sup>2</sup> See: [www.imowa.com.au/RC\\_2008\\_20](http://www.imowa.com.au/RC_2008_20)

DSP must be registered individually as CLs. This creates an issue when a DSP is expected to be made up of, potentially, hundreds of smaller CLs. That is, when attempting to satisfy the obligations of the DSP, a Market Participant will be required to apply for registration of all of the comprising CLs at the same time.

The registration process requires a large amount of information from DSP providers about each CL regarding both energy and capacity. For the purposes of the RCM the most important aspect of this is evidence that the facility has the capacity to be dispatched to the level of Capacity Credits held by a Facility. This is operationally inefficient for both the IMO, in assessing the applications, and for the DSP provider in providing the relevant information for the registration process.

Additionally, each application costs the Market Participant \$280 and can take the IMO up to 10 days to process. Therefore if a Market Participant with a 50MW DSP applies for registration of the 100 CLs that make up the DSP, the Market Participant would be required to pay registration fees of \$28,000. The Facility Registration process, and the associated application fee is designed around assessing full facility registrations, not conducting the limited assessment that would be required to assess a CL for the purposes of DSP registration.

Furthermore, Dispatch Instructions may only be issued to Registered Facilities (clause 7.7.2(b)). If a DSP is not registered as a single Facility, then Dispatch Instructions could be issued only to its component Loads and System Management would have to decide which Loads are required to deliver any reduction in consumption. For operational efficiency, System Management would prefer to issue a Dispatch Instruction to the DSP provider, who would then decide how to deliver the requested curtailment.

Finally, clause 4.8.3(c) implies that the DSP provider will seek Certified Reserve Capacity (CRC) for the DSP as a whole, but that the Reserve Capacity Obligations are transferred from the programme to its component Loads as they are registered. This implies that it is not possible to have more capacity associated with CLs in a programme than the quantity of CRC assigned to the DSP. However it is normal that DSP providers oversubscribe the level of capacity within a programme to manage the risk and providing some redundancy.

**Agreed Outcome:** The MAC endorsed the IMO's recommendation to amend the Market Rules to allow for the registration of a DSP as a Registered Facility (12 May 2010 MAC meeting). This will allow for the dispatch of a DSP instead of dispatching each CL within the DSP. This will become increasingly important as the expected number of CLs comprising DSPs will be between 200 and 500 by 2012/13.

The MAC also endorsed the IMO's recommendation that the Market Rules be amended to specify (and operationalise) the ability for DSPs to be over-subscribed. While this practise is not currently prohibited by the Market Rules, it is neither contemplated as a possibility.

**The IMO's proposed solution:** This issue is solved via the solution outlined in issue 1 above i.e if a DSP is a Registered Facility, System Management will be able to dispatch the Facility itself, and will not be required to dispatch each of the CLs comprising the DSP.

As identified in the paper presented to the MAC at its 11 August MAC meeting, the IMO also proposes an amendment to the Relevant Demand calculation to allow for the possibility that a programme will be oversubscribed.

The proposed amendments will also amend the calculation to no longer limit the amount of curtailability a DSP will be able to offer. This will be consistent with the treatment of Scheduled Generators. This is in the same way there is no limit on the amount of generation a Scheduled



Generator can provide even if it requests its capacity to be certified at a level below the nameplate capacity of the Facility.

### *Issue 3: Measurement of CLs*

**Overview:** As outlined in issue 2 the Market Rules do not contemplate the ability for a facility to be oversubscribed. As such the measurement of these oversubscribed facilities is also not accounted for. Currently there are two alternative views on the measurement of CLs:

1. that the DSM provider can stipulate which Loads curtailed in the DSP and which ones did not, as measured against the Relevant Demand calculated for each individual Load; or
2. that the DSP as a whole has an obligation to reduce consumption measured against the Relevant Demand of the DSP.

An issue with option 1 is that in allowing the DSP provider to stipulate which Loads curtailed (and which did not) following a Dispatch Instruction, the DSP provider is presented with an opportunity to use CLs which are by chance operating below the RD level, and be paid for those CLs.

This situation also creates operational inefficiencies where the IMO and the DSP are required to communicate about which loads were actually dispatched to calculate the shortfall (if any).

**Agreed Outcome:** The MAC endorsed the IMO's recommendations for the measurement and calculation of Relevant Demand (August 2010 MAC meeting):

- the RD level calculation methodology should be changed to be calculated on the IRCR intervals;
- the exclusion due to maintenance clause 4.26.2C(d) should be removed from the Market Rules; and
- the RD level be calculated based on the aggregated output of the DSP, and not by aggregating the RD of each CL associated with a DSP. The IMO considers that this will considerably reduce the complexity associated with other potential rule changes which may come out of the CLs review.

**The IMO's proposed solution:** The implementation of bullet points one and two are straightforward. However, with regards to the third bullet point above the IMO proposes that the RD level be calculated based on the aggregated output of the DSP, and not by aggregating the RD of each CL associated with a DSP.

The IMO considers that this solution, and the recommendations which ensure only the DSP is visible to the market and not the comprising loads, will lead to the DSP as a whole having the obligation to reduce consumption. This encompasses the idea that the DSP is just like any other Facility and how it satisfies its reserve capacity obligations is a matter for the Market Participant.

## **4. SUMMARY**

It is expected that the solutions contained in this paper will:

- greatly reduce the complexity within the Market Rules associated with CLs and DSPs; and

- allocate the risks associated with managing the availability of capacity associated with CLs (currently held by the IMO) to the correct party to manage these (the DSM provider).

## 5. RECOMMENDATIONS

The IMO recommends that the MAC:

- **Endorse** the IMO's proposed solutions; and
- **Endorse** the IMO consulting directly with potentially effected parties regarding the need for any transitional arrangements.