

Independent Market Operator



Market Rule Change Report

Title: IRCR for new meters – customer peak load diversity

Ref: RC_2007_11

Date: 17 August 2007

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1. INTRODUCTION

1.1. *General Information about Rule Changes*

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

In order for the proposal to be progressed, the change proposal must explain how it will enable the Market Rules to better contribute to the achievement of the wholesale 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
- (e) to encourage the taking of measures to manage the amount of electricity used and when it is used

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

1.2. *About this Rule Change*

On 26 June 2007, Alinta Sales submitted a Rule Change Proposal titled “IRCR for new meters – customer peak load diversity”.

The Proposal is being processed using the Fast Track Rule Change Process, described in section 2.6 of the Wholesale Electricity Market Rules. The Fast Track process is being used to process the Proposal as it satisfied the requirements of clause 2.5.9 (c) of the Market Rules. The change was considered to be urgently needed in order to facilitate market effectiveness.

The Fast Track Process adheres to the following timelines, outlined in section 2.6 of the Market Rules:

- Within 5 Business Days of a Rule Change Notice being published, the IMO must notify any Rule Participants that the IMO intends to consult regarding the Rule Change.

- Within 5 Business Days of the Rule Change Notice being published, any Rule Participant wishing to be consulted may contact the IMO to request consultation on the Rule Change.
- Within 15 Business Days of the Rule Change Notice being published, all consultations must be concluded.
- Within 20 Business Days of the Rule Change Notice being published, the IMO must publish a Final Rule Change Report.

The key dates in processing this Rule Change Proposal were:

- The Rule Change Notice for this Proposal was published on the IMO website on 4 July 2007.
- The IMO notified all Rule Participants it wished to consult on 4 July 2007.
- The initial consultation on the Rule Change was completed on 25 July 2007.
- A notice was published on 1 August 2007, extending the time to publish the Final Rule Change Report until 22 August 2007.
- A Workshop was held on 8 August 2007.
- This Final Rule Change Report was published on 17 August 2007.

This Final Rule Change Report on the Rule Change Proposal has been prepared by the IMO in accordance with clause 2.6.4 of the Market Rules.

Based on its analysis and the responses received from interested parties, the IMO's decision is to accept the Rule Change in the modified form outlined in this Final Report.

The amendments to Appendix 5 of the Wholesale Electricity Market Rules will commence at 08.00am on 1 September 2007.

2. THE RULE CHANGE PROPOSAL

2.1. Submission Details

2.1.1. Submission details

Name: Kristian Myhre
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 Organisation: Alinta Sales Pty Ltd
 Date submitted: 26/06/2007
 Urgency: Fast Track
 Change Proposal title: IRCR for new meters – customer peak load diversity

2.2. The Proposal

In its Proposal, Alinta submitted that currently, when a customer without interval meter readings in the previous Hot Season transfers to a new retailer, its Temperature Dependent Load for the purpose of determining its Individual Reserve Capacity Requirements (IRCR) is assumed to be its Contract Maximum Demand (CMD) or 1.1 times the MW figure formed by doubling the maximum Trading Interval demand by that customer (Appendix 5, step 5).

Alinta submitted that this approach significantly overstates the new retailer's IRCR as it does not take into account the diversity between peak loads on the SWIS. That is, individual customers' demand generally peaks in different intervals and the current methodology does not take that into account. For example, customers peaking at different times of the day, on weekends, or even in the evenings, are effectively all assumed to occur at the same time when determining the new retailer's IRCR.

Alinta estimated that the current treatment of loads without prior meter history leads to a substantial increase in the IRCR requirement compared to the methodology that applies to loads with meter history covering the relevant 12 intervals of the previous Hot Season.

In its Proposal, Alinta stated that the current treatment of the IRCR calculation, for Temperature Dependent Loads without interval meter readings in the previous Hot Season, is detrimental to achieving the following objectives of the market:

| Objective | Identified deficiency |
|-----------|---|
| (a) | The current treatment is significantly distorting the cost of supplying these customers potentially leading to economically inefficient production and supply of electricity to these customers. |
| (b) | The current treatment is a significant barrier to new retail entry and reduces the competitive pressure amongst retailers in the SWIS by allowing preferential treatment of the incumbent retailer. |
| (d) | The current treatment does not efficiently contribute to minimising the long-term cost of electricity because of the reduced competitive pressure identified in (b) and the distorted cost signals identified in (a). |
| (e) | The current treatment does not efficiently contribute to the aim of encouraging measures to manage the timing of the use of capacity. In the short term customers have very limited ability to influence their overall capacity requirements. However, they do have the ability to influence when the maximum capacity is used, but are not |

incentivised to do so with the current treatment of the IRCR calculation for the group of customers without interval meter history for the preceding Hot Season.

To address these issues, Alinta proposed that a new Temperature Dependant Load without Hot Season interval readings be assigned an amount equal to the median of its demand in the 4 peak intervals of the SWIS in each month. This change will ensure that the diversity of the particular customer's use of system capacity is reflected in the IRCR calculation.

Changes to Appendix 5, Step 5, would be required to implement this Rule Change.

Alinta also proposed to change Appendix 5 to put beyond any doubt that the IRCRs for new meters are recalculated each month until Hot Season data becomes available for those meters. This was to ensure that the proposed changes do not create gaming opportunities in the market.

In addition, Appendix 5, Step 5, defines new meters as follows: "When determining the Individual Reserve Capacity Requirements for Trading Month n identify meters that were not registered with the IMO during the preceding Hot Season but which were registered by the start of Trading Month n-3".

However, where a new meter is brought on during the Hot Season, but after the 12 peak Trading Intervals, this meter would not be attributed an IRCR. For example, a 10MW load, whose interval meter is commissioned on 20 March, is "registered during the Hot Season". If the last peak Trading Interval occurred on 7 March, however, the relevant load would not be attributed an IRCR for a period of 18 months.

To avoid any potential for gaming by bringing on new meters towards the end of the Hot Season, Alinta proposed that new meters need to have recorded a reading for all of the 12 peak Trading Intervals during the Hot Season to be treated in the "normal way" for calculation of IRCR. If new meters do not have recorded meter readings for all 12 Peak Trading intervals during the preceding Hot Season, they will be treated under the alternative way proposed by Alinta for new meters.

2.3. The Proposal and the Market Objectives

Alinta submitted that the proposed change to the Market Rules will improve the accuracy in cost allocation between retailers by more accurately reflecting the diversity of customers with loads that do not have interval meter reading history for the preceding Hot Season.

According to Alinta's Proposal, the change will remove a disadvantage that currently applies to all but the incumbent retailer. The change will therefore facilitate competition in the supply of electricity and contribute to minimising the long term cost of electricity in the SWIS.

In its Proposal, Alinta argued that the change would allow customers to influence their contribution to IRCR by influencing their peak usage to fall at other times than the SWIS peak usage. The current rules do not give these customers any incentive to take into account their time of use pattern as their IRCR calculation is linked to their individual maximum consumption interval regardless of the time that consumption occurs.

For the reasons set out above, Alinta considered the change will better facilitate the achievement of objectives (a), (b), (d) and (e) of the Market Rules.

Alinta requested that the Proposal be progressed under the Fast Track Rule Change process. Alinta argued that the change was urgently required and essential for the effective operation of the market. Alinta claimed that the current version of the Market Rules presents a barrier to churn which impacts on retail competition and slows down the churn rate. Ultimately, this inefficiency in the operation of the market flows through to the end user through less downward pressure on prices.

2.4. Amending Rules Proposed by Alinta

Alinta proposed to amend Appendix 5 as follows:

Appendix 5: Individual Reserve Capacity Requirements

This Appendix presents the method for annually setting and monthly adjusting Individual Reserve Capacity Requirements.

For the purpose of this Appendix:

- Steps 1 to 10 are repeated every month.
- [other dot points not shown]

[balance of text not changed]

STEP 5: When determining the Individual Reserve Capacity Requirements for Trading Month n identify meters that were not registered with the IMO during one or more of the 12 peak Trading Intervals in the preceding Hot Season but which were registered by the start of Trading Month n-3.

Identify the 4 Peak SWIS Trading Intervals of Trading Month n-3, being the 4 highest demand Trading Intervals, where demand refers to total demand, net of embedded generation, in the SWIS.

For a new meter u that measures Non-Temperature Dependent Load ~~set NMNTCR(u) equal to the Contractual Maximum Demand associated with that meter if such a value is stated in the corresponding consumer's Arrangement for Access applicable from Trading Month n-3, otherwise set NMNTCR(u) to be 1.1 times the MW figure formed by doubling the maximum Trading Interval demand for that meter during Trading Month n-3.~~

For a new meter v that measures Temperature Dependent Load ~~set NMTDCR(v) equal to the Contractual Maximum Demand associated with that meter if such a value is stated in the corresponding consumer's Arrangement for Access applicable from Trading Month n-3, otherwise set NMTDCR(v) to be 1.1 times the MW figure formed by doubling the maximum Trading Interval demand for that meter during~~ the median value of the metered consumption for that meter during the 4 Peak SWIS Trading Intervals of Trading Month n-3.

For a new meter w that measures Intermittent Load set IILRCR(w) in accordance with Appendix 4A to the value applicable to Trading Month n.

[balance of text not changed]

2.5. The IMO's Initial Assessment of the Proposal

The IMO decided to proceed with the Proposal on the basis of its preliminary assessment which indicated that the Proposal was consistent with the Market Objectives.

The IMO conducted a preliminary analysis which indicated that the current Appendix 5 of the Market Rules could give rise to disproportionately high IRCRs for new interval meters and create an undue cost for retailers successfully competing for customers. This has the potential to reduce competition among retailers and negatively impact on the effectiveness of the electricity market.

The change was therefore considered to be urgently needed in order to facilitate market effectiveness.

Consequently, the IMO considered that the Proposal satisfied the requirements of clause 2.5.9(c) of the Market Rules, and decided to process the Rule Change Proposal using the Fast Track Process, described in section 2.6 of the Wholesale Electricity Market Rules.

The preliminary assessment was published in a Rule Change Notice on 4 July 2007.

3. RULE PARTICIPANTS CONSULTED

For this Rule Change, the IMO notified the following interested parties of its intention to consult:

- Alcoa World Alumina Australia
- Alinta Sales Pty Ltd
- Barrick (Kanowna) Limited
- Bioenergy Limited
- Economic Regulation Authority
- Eneabba Gas Pty Ltd
- Griffin Energy
- Landfill Gas and Power Pty Ltd
- Mount Herron Engineering
- NewGen Power Kwinana Pty Ltd
- Newmont Australia Ltd.
- Office of Energy
- Perth Energy Pty Ltd
- Premier Power Sales Pty Ltd
- TransAlta Energy
- Synergy Energy
- System Management
- Verve Energy
- Wambo Power Ventures
- Waste Gas Resources Pty Ltd
- Water Corporation
- Western Australia Biomass Pty Ltd (Babcock and Brown)
- Western Power Corporation

In addition to IMO's notification, an invitation for Rule Participants to contact the IMO, should they wish to be consulted on this Rule Change, was published on the IMO website on 4 July 2007.

The IMO requested the interested parties to provide their views on the Rule Change in writing.

Below is a summary of the received feedback.

3.1. Market Advisory Committee

The Market Advisory Committee (MAC) was invited to have preliminary discussions on the Proposal at its meeting on 13 June 2007, before it was formally submitted by Alinta.

MAC was in general agreement that the concerns raised by Alinta needed to be addressed.

MAC suggested that the Contract Maximum Demand should also be removed as the basis for determining IRCRs for non-temperature dependant loads.

The Proposal raised some concern amongst MAC members about the potential gaming opportunities for retailers that the proposed approach could open. The concern related to

the lack of clarity as to whether the relevant IRCR will continue to be recalculated each month until interval meter data is available for a Hot Season. The general view was that, to avoid gaming opportunities, the IRCR for new loads should continue to be recalculated on a monthly basis until actual data becomes available.

Alinta acknowledged the concerns raised by MAC in its formal Rule Change Proposal.

The IMO invited MAC again for formal consultation on the Rule Change at the MAC meeting on 11 July 2007. Synergy and Verve Energy indicated they would provide their views as formal submissions, while the other MAC members expressed their general support for the Proposal.

3.2. Eneabba Gas

Eneabba Gas expressed its support of the Rule Change. It considered that the change will increase the openness of the Market and make it easier for customers to churn.

Eneabba Gas also requested that the Market Rules be amended to allow full portability of customer meter data to all potential energy retailers in the Wholesale Electricity Market. Knowledge of a specific customer's meter history would ensure a level playing field for all retailers when bidding for a customer.

3.3. Griffin Energy

Griffin Energy acknowledged the potential adverse outcomes of the current Appendix 5 for calculating IRCRs for new loads without meter readings in the previous Hot Season. Griffin considered that the changes proposed by Alinta are reasonable measures to address the issues. By allocating the IRCR obligations more equitably, Griffin considered that the change would better facilitate the objectives of the market.

While the proposed changes addressed the issue of potential gaming opportunities for retailers when introducing new loads, Griffin considered that the change may not account for a new load being commissioned (or ramped up) during the Hot Season. This load may record meter readings in the 12 peak intervals, but due to the commissioning process the readings recorded may be lower than the actual load once in production. The IRCR assigned to the load may therefore be too low for a period of up to 18 months, until the next time IRCRs are assigned.

3.4. Landfill Gas and Power

Landfill Gas and Power (LGP) expressed its support of the suggested change. LGP agreed that the change will better facilitate the achievement of the Market Objectives as proposed by Alinta. LGP considered that the change would especially benefit small customers by reducing their cost of changing retailers.

LGP considered that, as a retailer, they would benefit from the proposed change.

3.5. Synergy Energy

Synergy supported the intent of the Rule Change Proposal as it sought to find a more reasonable approach that aligns the capacity charges to loads with their contribution to the system peak, rather than simply their peak demand or CMD during a month.

In its submission, Synergy questioned the claim by Alinta that the current Rules overstate IRCRs by 60% relative to the IRCRs calculated under Alinta's proposed approach.

Synergy argued that it is important to ensure that competitive neutrality is maintained between electricity customers who are currently contestable and have interval meters and are able to rely on this data when contracting for electricity, and those contestable customers who currently do not have an interval meter, but who are likely to seek a contestable contract for electricity at some future date.

Synergy has undertaken its own modelling which supported Alinta's statement that the current n-3 method penalises new loads and that Alinta's proposed alternative, using the median load in the monthly peak intervals, rather than the individual monthly peaks, is more consistent with the Hot Season.

Synergy also argued that by raising the uplift to 1.25 for the IRCR for temperature dependant loads, (as opposed to the 1.1 times the metered load used in both the current Appendix 5 and in Alinta's Proposal), it is possible to obtain an even closer alignment between the Hot Season and n-3 outcomes.

Synergy sees the intent behind the Proposal as being consistent with the Market Objectives, by facilitating objective a) to promote the economically efficient, safe and reliable production and supply of electricity and electricity related services in the South West Interconnected System.

3.6. Verve Energy

Verve Energy expressed concerns that the Rule Change, even though the IRCRs are proposed to be recalculated monthly, could result in overstated IRCRs for winter peaking loads and understated IRCRs for summer peaking loads.

In order to support the Rule Change, Verve Energy requested evidence that the change could improve the IRCR estimates for all non-interval metered contestable customers, not just the customers that have churned.

4. THE IMO'S ASSESSMENT AND DECISION

4.1. Assessment

4.1.1. Consultations

All parties responding to IMO's request for consultation expressed support for the general intent of Alinta's Proposal. That is, IRCRs calculated for temperature dependant loads without readings in the previous Hot Season, should be as fair as possible and not generally attribute a new load a higher IRCR than if it had readings for the previous Hot Season.

However, a number of issues were raised by Eneabba Gas, Griffin Energy, Synergy and Verve Energy, as summarised in Chapter 3. Below is the IMO's response to each of these issues.

Full Portability of Meter Data

Eneabba Gas submitted that the Market Rules should be changed to allow full portability of meter data between retailers. This would contribute to increased competition among retailers when bidding for potential customers.

The IMO notes Eneabba Gas' concern, but considers that this is a matter outside the scope of the change being addressed in this Fast Tracked Rule Change process. A proposed change to the Market Rules as suggested by Eneabba Gas would therefore have to be put forward in a separate Rule Change Proposal.

IRCRs for Loads Under Commissioning

Griffin Energy noted that the change does not account for a new load being commissioned (or ramped up) in the Hot Season and that the IRCR assigned to the load may therefore be too low for a period up to 18 months, until the next time IRCRs are assigned. The IMO acknowledges Griffin's concern, but considers that solving this may be a complex issue, for which currently no effective solution has been identified. Any proposal to address this issue would be welcomed by the IMO.

The Correct Multiplier for Temperature Dependant Loads

While agreeing that the current methodology overstates the IRCRs, Synergy questioned Alinta's analysis that the over-estimation is as high as 60%.

Synergy also submitted that a multiplier of 1.25 for temperature dependant loads, rather than 1.1, would bring the estimated IRCR closer to the actual IRCR for the Hot Season. The IMO invited all parties consulted on the original Proposal to consider Synergy's suggestion. The results of this consultation and IMO's decision can be found in Section 4.1.3, below.

Improved IRCRs for all Customers

Verve Energy requested evidence that the change will improve the IRCR estimates for all non-interval metered contestable customers, not just the customers that churn. The

IMO understands Verve Energy's concern to be that the IRCRs for all loads should be more accurately determined, not only the IRCRs for new loads assigned an IRCR using the method in Appendix 5, step 5. The IMO notes that by improving the accuracy of the IRCR determined for a new load, the overall accuracy of all IRCRs will also improve.

Verve Energy also raised a concern that this change could potentially result in too high IRCRs for winter peaking loads and too low IRCRs for summer peaking loads, in spite IRCRs being re-calculated each month. The IMO notes the concern raised by Verve Energy.

The rationale for using the methodology described in Appendix 5, step 5, for the determination of the IRCRs for new loads, is due to these loads not having interval meter readings in a relevant Hot Season. Therefore, there will always be discrepancies between the IRCR calculated according to step 5 and the IRCR set once the load has readings for a full Hot Season. Analysis conducted by the IMO demonstrates that the proposed change will increase the overall efficiency and accuracy of the IRCRs compared to those determined under the current Rules, thus resulting in a fairer outcome for both the loads installing interval meters and the ones remaining with the notional meter.

4.1.2. Additional Amendments to Appendix 5, step 5

In the process of examining Alinta's Proposal the IMO found an inconsistency in Appendix 5, which the IMO believes should be corrected. Step 5 in Appendix 5 defines new meters as "meters that were not registered with the IMO during the preceding Hot Season but which were registered by the start of Trading Month n-3".

However, the calculations in Step 7 in Appendix 5 are based on the number of days a new meter is registered to a Market Participant in the trading month n-3. The IMO believes that this inconsistency should be resolved by changing the definition in Step 5 to "meters that were not registered with the IMO during the preceding Hot Season but which were registered by the end of Trading Month n-3".

This will ensure that customer churn is appropriately accounted for in the calculation of the IRCR for the "notional meter" (i.e. the non-interval meter customers remaining with the incumbent retailer).

4.1.3. Additional Consultations

All parties invited to consult on the original Proposal were also invited to provide their comments on the additional changes proposed. The request for additional comments was also published on the IMO's web-site.

These changes were the IMO's clarification to Step 5 described in section in 4.1.2 above, and Synergy's proposal to change the multiplier in Step 5 to 1.25 instead of 1.1.

The IMO received responses from Alinta Sales, Griffin Energy, Landfill Gas and Power (LGP), and Premier Power in response to the invitation.

Responses to IMO's Clarification

All parties supported the IMO's proposed clarification. However, Alinta indicated that as it wanted to implement its original Change Proposal as soon as practicable, the IMO's proposal should only be rolled into the current Change Proposal if there are no delaying

impacts on its implementation. IMO has confirmed that the proposed clarification will not impact on the implementation of Alinta's Proposal.

Responses to Synergy's Proposal to Change the Multiplier to 1.25

Alinta indicated that its analysis based on the data from Alinta's customer portfolio indicates that the current multiplier of 1.1 in the Rules would represent a fair multiplier under the proposed change. Alinta therefore proposed that the multiplier remains at 1.1. It suggested that, should there be conclusive evidence at a later point that the multiplier should be changed (up or down), any Market Participant would be free to put forward a change proposal for consideration. Alinta indicated that the current Market Rules are barrier to retail competition and, therefore, implementation of the current Proposal should not be held up by further analysis of what the appropriate multiplier should be.

Griffin noted that it has not performed any analysis on raising the multiplier from 1.1 to 1.25 and is therefore unable to comment on the merit of the Proposal. Considering that the Rule Change Proposal is being processed under the Fast Track process, Griffin suggested that it continues to be assessed as it stands.

LGP noted that the most important aspect was changing the methodology for calculating the IRCRs, and that this change was important and should not be delayed because of uncertainties regarding the correct multiplier. Determining the correct value for the multiplier was considered to also be important, but an exercise outside the scope of this Rule Change.

Premier Power questioned the need to address the multiplier from its current level of 1.1.

Given the importance of this issue in assessing whether the proposed change was consistent with the Market Objectives, the IMO considered that further analysis was necessary to determine if the multiplier of 1.1 was appropriate or needed to be modified.

Preliminary analysis, undertaken by the IMO, revealed potential issues with the proposed methodology requiring more detailed analysis. In order to be able to finalise more detailed analysis and discuss this issue more fully with Participants who responded to the IMO's request for additional consultation through a Workshop, the IMO extended the time for publishing this Final Rule Change Report.

4.1.4. Extended Time

In accordance with clause 2.5.11 of the Market Rules, the IMO extended the timeframe for publishing the Final Rule Change Report for this proposal by 15 Business Days. The IMO published an extension notice on the IMO website on 1 August 2007.

4.1.5. Additional Analysis and Workshop

The IMO undertook additional analysis using two samples of interval meters with readings during the 2005/06 Hot Season. The first sample contained 400 meters, while the second sample contained 600 meters and included the meters in the first sample plus 200 additional meters. Load sizes ranged from few kW to 200 kW. Loads over 200 kW were not considered, as this group of customers is more likely to already have interval meters and therefore is unlikely to be affected by the proposed Rule Change. It is noted that, while the second sample was larger, the average size of its loads was substantially higher than the average load of the first sample.

The analysis compared the actual IRCRs for the loads calculated using their 2005/2006 Hot Season interval meter data, with:

1. the IRCRs calculated using the current method for new interval meters prescribed in Step 5, Appendix 5; and
2. the IRCRs calculated using the method proposed by Alinta.

The analysis confirmed that the current method on average overstates the IRCRs. However, it was also determined that Alinta's proposed method significantly understates the IRCRs. The results of this analysis are presented in the following table:

Table 1: Average Differences Between the Estimated IRCRs and Actual IRCRs

| | Sample 1 (400 meters) | Sample 2 (600 meters) |
|--|---------------------------------|---------------------------------|
| Average ratio of IRCRs under the Current Method over the actual IRCRs | +18% | +48% |
| Average ratio of IRCRs under the Proposed Method over the actual IRCRs | -28% | -14% |

One obvious reason for the understatement observed when applying the Proposed Method can be found in the relatively low level of the multiplier currently used in Step 5, Appendix 5, which is currently set by the Rules at 1.1. The potentially low level of this multiplier, which was based on assumptions made during the development of the Market Rules, was also noted by Synergy in its submission. The equivalent ratio applied to all Temperature Dependant Loads (the TDL Ratio), in accordance with Step 8 of Appendix 5, which the multiplier was intended to replicate, has been substantially higher than 1.1 since market start.

Therefore, the next stage of the IMO analysis focused on finding an efficient multiplier that would avoid underestimating the IRCRs for new loads when the current method in Step 5 is replaced with the method proposed by Alinta. From analyses of different values for the multiplier it was established that a multiplier of 1.3 would result in average IRCRs, calculated using the proposed method, which would be comparable with the actual IRCRs based on Hot Season data.

The analysis also uncovered that the appropriate multiplier was dependent on the size of the loads. The following table outlines the estimated multipliers for the various load size groups that would, on average, align the proposed methodology for calculating new mwtr IRCRs with the IRCRs based on Hot Season data.

Table 2: Multipliers that (on average) would Align the Proposed Method with the Use of Hot Season Data

| Load Size | Multiplier |
|------------------|-------------------|
| <5.7 kW | 5.5 |
| 5.7 – 34 kW | 1.5 |
| 34 – 100 kW | 1.3 |
| 100 – 200 kW | 0.8 |
| Whole sample | 1.3 |

The most likely reason for this variance is that smaller loads tend to peak in the Hot Season months, mainly due to air conditioning use. Therefore, these loads, and the corresponding IRCR calculated using the median 4 SWIS peak intervals, would be lower in other months. The larger loads, on the other hand, tend to be more constant throughout the year.

The IMO invited Participants who had participated in the additional consultation to a Workshop to discuss the analysis and to comment on a preferred method of calculating IRCRs for loads without interval readings in the previous Hot Season.

Participants in the Workshop agreed that the current method in the Rules, on average, overstates the IRCRs. It was also agreed that Alinta's proposed method of calculating the IRCRs, using the median of the 4 peak SWIS intervals for the trading month n-3 was preferred. The consensus was that the proposed method was a more efficient way of bringing IRCR calculations in line with the actual IRCRs of loads with interval readings in the previous Hot Season.

In regard to the multiplier, the Workshop noted that most large loads already have interval meters and, thus, readings from the previous Hot Season. The loads most likely to have interval meters installed in the near future were thought to be loads with sizes between 34kW and 100 kW. It was, therefore, agreed that a more appropriate multiplier in Step 5, Appendix 5, was 1.3. This would, on average, assist that fair IRCRs being allocated to new interval meters as well as contestable loads that remain on non-interval meters.

Participants in the Workshop also discussed the possibility of grouping loads based on their size and applying different multipliers to each group, similar to Table 2, above. However, given that this would add to complexity and also present difficulties in placing a load in the correct group, this option was not accepted. A single multiplier of 1.3 for all loads was favoured.

The Workshop agreed that adopting Alinta's proposed method with a multiplier of 1.3 instead of 1.1 was the preferred solution to provide an expedient response to the issue identified by Alinta and ensure that new loads are assigned more accurate IRCRs.

4.1.6. *The IMO's Assessment*

According to clauses 2.4.2 of the Market Rules *"the IMO must not make Amending Rules unless it is satisfied that the Market Rules, as proposed to be amended or replaced, are consistent with the Wholesale Market Objectives"*.

The IMO' assessment against each of the Market Objectives is as follows:

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

Assessment: Removing the current over-estimation of the IRCR assigned to loads without interval meter readings in the previous Hot Season, will improve the economic efficiency of the supply of electricity to contestable customers in the SWIS. The IMO considers that the proposed changes, therefore, will further objective (a) of the Market Objectives. Submissions received supported this assessment.

(b) to encourage competition among generators and retailers in the South West interconnected system, including by facilitating efficient entry of new competitors

Assessment: The costs associated with IRCRs are an important factor for retailers churning a customer. By removing the current overstatement of the IRCRs (and thus providing a more accurate outcome), increased competition among retailers will be encouraged and allow more competitive prices to be offered to customers. The IMO considers that the proposed changes, therefore, will further objective (b) of the Market Objectives. Submissions received supported this assessment.

(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

Assessment: The IMO considers that the proposed changes do not impact on, and therefore are consistent with, the operation of objective (c) of the Market Objectives.

(d) to minimise the long-term cost of electricity supplied to customers from the South West interconnected system

Assessment: The change will remove a potential disadvantage that currently exists for Market Customers other than the incumbent retailer. The changes will therefore facilitate competition in the supply of electricity and contribute to minimising the long term cost of electricity supplied to customers in the SWIS. The IMO considers that the proposed changes, therefore, will further objective (d) of the Market Objectives.

(e) to encourage the taking of measures to manage the amount of electricity used and when it is used

Assessment: The IMO considers that the proposed changes do not impact on, and therefore are consistent with, the operation of objective (e) of the Market Objectives.

In accordance with Clause 2.4.3(b) of the Market Rules, in deciding whether or not to make Amending Rules, the IMO must also have regard to the practicality and cost of implementing the Amending Rules.

The proposed changes to Appendix 5 will require changes to the Wholesale Electricity Market System operated by the IMO. The cost of implementing these changes has been estimated at around \$ 14,000.

The IMO has found this cost to be acceptable and considers that the benefits the change will bring to Market Participants and electricity customers will outweigh the cost. The implementation of the required system changes will take two to four weeks. No other costs have been identified in relation to this change during the consultation process.

4.2. The IMO's Decision

The IMO's decision is to:

- Accept Alinta's proposed changes to Step 5, Appendix 5, and in addition change the multiplier in Step 5 applying to Temperature Dependant Loads to 1.3 from the current level of 1.1.
- Further amend Step 5, Appendix 5, to clarify that its provisions apply to loads registered during trading month n-3, not only loads registered at the start of trading month n-3.

The IMO has made its decision on the basis that the resulting Amending Rules will allow the Market Rules to better address the Market Objectives.

The wording of the relevant Amending Rules is presented in Chapter 5 of this Report.

4.3. Amending Rules Commencement

The amendments to Appendix 5, Step 5 of the Wholesale Electricity Market Rules will commence at 08.00am on 1 September 2007.

5. AMENDING RULES

5.1. Appendix 5

Appendix 5 will be amended as follows (~~deleted wording~~, new wording):

Appendix 5: Individual Reserve Capacity Requirements

This Appendix presents the method for annually setting and monthly adjusting Individual Reserve Capacity Requirements.

For the purpose of this Appendix:

- Steps 1 to 10 are repeated every month.
- [other dot points not shown]

[balance of text not changed]

STEP 5: When determining the Individual Reserve Capacity Requirements for Trading Month n identify meters that were not registered with the IMO during one or more of the 12 peak Trading Intervals in the preceding Hot Season but which were registered ~~by the start of~~ by the end of Trading Month n-3.

Identify the 4 Peak SWIS Trading Intervals of Trading Month n-3, being the 4 highest demand Trading Intervals, where demand refers to total demand, net of embedded generation, in the SWIS.

For a new meter u that measures Non-Temperature Dependent Load set ~~NMNTCR(u) equal to the Contractual Maximum Demand associated with that meter if such a value is stated in the corresponding consumer's Arrangement for Access applicable from Trading Month n-3, otherwise~~ set NMNTCR(u) to be 1.1 times the MW figure formed by doubling the maximum Trading Interval demand for that meter during Trading Month n-3.

For a new meter v that measures Temperature Dependent Load set ~~NMTDCR(v) equal to the Contractual Maximum Demand associated with that meter if such a value is stated in the corresponding consumer's Arrangement for Access applicable from Trading Month n-3, otherwise~~ set NMTDCR(v) to be ~~1.1~~ 1.3 times the MW figure formed by ~~doubling the maximum Trading Interval demand for that meter during~~ the median value of the metered consumption for that meter during the 4 Peak SWIS Trading Intervals of Trading Month n-3.

For a new meter w that measures Intermittent Load set IILRCR(w) in accordance with Appendix 4A to the value applicable to Trading Month n.

[balance of text not changed]