
Wholesale Electricity Market - Market Rule Change Proposal

Change Proposal No: RC_2007_24

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Submitted by

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Date submitted:	15 October 2007
Urgency:	High
Change Proposal title:	Maximum Reserve Capacity Price Methodology and Review
Market Rule(s) affected:	Amendment to clause 4.16.5

Introduction

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

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

Independent Market Operator

Attn: Dora Guzeleva, Manager Market Administration
PO Box 7096
Cloisters Square, Perth, WA 6850

Fax: (08) 9420 5755

Email: dora.guzeleva@imowa.com.au

The Independent Market Operator will assess the proposal and, within 5 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 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; 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. Outline the issue concerning the existing Market Rules that is to be addressed by the proposed Market Rule change:

Clauses 4.16.3 and 4.16.4 of the Wholesale Electricity Market Rules provide for an annual review to be conducted by the IMO to assess the appropriateness of some of the parameters that are used to determine the Maximum Reserve Capacity Price. The next clause, 4.16.5 provides a mechanism by which the IMO proposes a revised Maximum Reserve Capacity Price. However, the linkage between the review and the proposal of the revised value could be enhanced.

The IMO has also established an industry-based Advisory Group to assist in a more general review of the Maximum Reserve Capacity Price. One of the outcomes of this review has shown that the methodology used to estimate the capital cost of an Open Cycle Gas Turbine (OCGT) power station currently under-estimates the real cost of building such a plant. This has resulted from a change in the construction and engineering environment over the past few years. In this case, applying the methodology outlined in Appendix 4 of the Wholesale Electricity Market Rules would result in an outcome that is not reflective of today's construction and engineering cost environment.

Therefore, this rule change proposal aims to introduce a mechanism by which the outcome of the review can be considered when revising the Maximum Reserve Capacity Price and to take account of methodology changes if they are significant and can be substantiated.

A significant change to the methodology would be one where the IMO provides evidence that the application of the existing methodology would have a material impact on the Maximum Reserve Capacity Price, and where adjusting the methodology better supports the Wholesale Electricity Market Objectives. Changes to the methodology will be limited to the parameters that are reviewed each year under clause 4.16.4 of the Wholesale Electricity Market Rules.

2. Explain the reason for the degree of urgency:

The review conducted in accordance with clause 4.16.3 and 4.16.4 of the Wholesale Electricity Market Rules for the 2008 Reserve Capacity Cycle (for capacity that will be available from 1 October 2010 to 1 October 2011) has already commenced. The IMO's draft report, to be published in early November, will propose a revised value which will be subject to public consultation (in accordance with clause 4.16.6).

Submissions made by interested parties will then be taken into consideration when the IMO produces its Final Report and final revised Maximum Reserve Capacity Price for approval by the Economic Regulation Authority.

This process must be fully completed before the IMO publishes the 2008 Request for Expressions of Interest on or before 31 January 2008. Due to these timing constraints, this rule change proposal is submitted under the fast-track process. The standard rule change process timeframes would preclude the proposed rule changes being adopted before the IMO publishes the Maximum Reserve Capacity Price for the 2008 Reserve Capacity Cycle.

In addition to this rule change proposal, the Maximum Reserve Capacity Price Advisory Group established by the IMO will continue evaluating and reviewing the Maximum Reserve Capacity Price process. It is likely that subsequent rule changes will be required, but the nature of these will be less urgent and they are expected to be progressed through the standard rule change process.

3. Provide any proposed specific changes to particular Rules:

The following amendment is proposed to be implemented to Chapter 4 of the Wholesale Electricity Market Rules:

- 4.16.5 The IMO must propose a revised value for the Maximum Reserve Capacity Price using the methodology described in Appendix 4 after taking into account any significant modifications to the methodology resulting from the review conducted in accordance with clause 4.16.3 and 4.16.4.

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

In addition to improving the clarity of the Wholesale Electricity Market Rules and removing doubt about the application of the findings of the review of the Maximum Reserve Capacity Price, the IMO considers that the objectives of the market as set out in clause 1.2.1 of the Wholesale Electricity Market Rules will be addressed by this proposed rule change 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.*

The Reserve Capacity Mechanism is an important component of the Wholesale Electricity Market and measures taken to ensure that the Maximum Reserve Capacity Price is cost-reflective will further the achievement of this objective.

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

The IMO considers that this rule change proposal supports objective (b) of the Wholesale Electricity Market Rules by encouraging the efficient entry of new facilities (and new competitors) into the Wholesale Electricity Market.

- (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.*

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*

The IMO considers that through the expected positive contribution to the achievement of objectives (a) and (b), the proposed changes are consistent with the operation of 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.*

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.

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

The IMO has commissioned an engineering consultancy firm to provide an estimate of the costs that could be expected when developing the generic generation scenario considered in the application of Appendix 4 of the Wholesale Electricity Market Rules. This will not involve a significant cost and builds on the work completed for the Maximum Reserve Capacity Price Advisory Group.

No other direct costs are expected to be incurred as a consequence of accepting this rule change proposal.