

Independent Market Operator



Draft Market Rule Change Report

Title: Maximum Refund

Ref: RC_2007_36

Standard Rule Change Process

Date: 29 February 2008

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Independent Market Operator

Level 22, The Forrest Centre
221 St George's Terrace, Perth WA 6000
PO Box 7096, Cloisters Square, Perth WA 6850
Tel. (08) 9254 4300
Fax. (08) 9254 4399
Email: imo@imowa.com.au
Website: www.imowa.com.au

1. INTRODUCTION

1.1. *General Information about Rule Changes*

Clause 2.5.1 of the Wholesale Electricity Market Rules (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 Market Objectives. The market objectives 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 Rule Change Process or a Fast Track Rule Change 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 19 December 2007, the IMO submitted a Rule Change Proposal regarding changes to clauses 4.26.1, 4.26.1A, 4.26.1B, 4.26.2, 4.26.3, and the Glossary of the Market Rules.

This Proposal is being processed using the Standard Rule Change Process, described in section 2.7 of the Market Rules.

The standard process adheres to the following timelines, outlined in section 2.7 of the Market Rules:

- The Public Submission period is 6 weeks after the IMO has published the Rule Change Notice for the proposal.
- The IMO must publish a Draft Rule Change Report within 20 Business Days of the end of the submission period.

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- The second Public Submission period is for a minimum of 20 Business Days from the date the Draft Rule Change Report is published.
- Within 20 Business Days after the end of the second Public Submission period, the IMO must publish a Final Rule Change Report.

The key dates in processing this Rule Change Proposal are:

- The Rule Change Notice for this proposal was published on the IMO website on 21 December 2007.
- The first public submission period on the Rule Change Proposal ended on 1 February 2008.
- This Draft Rule Change Report is published on 29 February 2008.
- The second public submission period is from 29 February to 2 April 2008.
- The Final Rule Change Report will be published by the IMO on 1 May 2008.

Based on the submissions received, the IMO's draft decision is to implement the Rule Change in the form outlined in section 6 of this report.

This Draft Rule Change Report on the Rule Change Proposal has been prepared by the IMO in accordance with clause 2.7.6 of the Market Rules.

Interested parties are invited to provide further submissions in relation to this Draft Rule Change Report. In accordance with the Market Rules timelines, the deadline for submissions is 2 April 2008.

2. THE RULE CHANGE PROPOSAL

2.1. The Submission

On 19 December 2007, the IMO submitted a Rule Change Proposal regarding changes to clauses 4.26.1, 4.26.1A, 4.26.1B, 4.26.2, 4.26.3, and the Glossary of the Market Rules.

2.1.1. Submission Details

Name:	Dora Guzeleva
Phone:	(08) 9254 4351
Email:	imo@imowa.com.au
Organisation:	Independent Market Operator
Address:	Level 22, The Forrest Centre, 221 St Georges Terrace, Perth WA 6000
Date submitted:	19 December 2007
Urgency:	Medium
Title:	Maximum Refund

2.2. Details of the Proposal

Clause 4.26.1 of the Market Rules includes a Refund Table that sets the levels of Reserve Capacity Refunds that would be applied in the event that a Market Participant which holds Capacity Credits does not meet its Reserve Capacity Obligations. The Reserve Capacity Obligations are calculated in accordance with clause 4.12.1. Under the current provisions of clause 4.26.1, the refund quantities are calculated across the sum of all facilities held by a Market Participant.

The Refund Table includes a term “Maximum Refund”. The IMO submitted that it understands that it is widely accepted that this limits the level of refunds associated with any individual Facility to the amount of capacity credit payments accruing to that individual Facility. However, as the rule is written, and has been implemented, the “Maximum Refund” currently applies to the entire Facility portfolio associated with a Market Participant rather than to individual Facilities.

According to the IMO’s submission, in practice the Maximum Refund for a major outage of a Facility that is the sole Facility owned by a Market Participant cannot exceed the value of the Reserve Capacity Payments associated with that Facility. However, as a result of the current outworking of the Rules, for a Market Participant with a portfolio of Facilities, the Maximum Refund for an identical outage may be higher. This does not appear to be equitable. It may also provide an incentive for Market Participants to establish numerous entities, each holding a single Facility. The IMO proposed that the

rules are changed in order to ensure that Market Participants are treated equitably with respect to their Reserve Capacity Refunds.

2.3. *Amending Rules proposed by the IMO*

The IMO proposed the following amendments to the Market Rules (added words are underlined and deletions are shown with strikethrough):

Clause 4.26.1

4.26.1. If a Market Participant holding Capacity Credits 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 MW shortfall per Trading Interval)	0.25 x Y	0.25 x Y	0.5 x Y	0.75 x Y
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 <u>Participant</u> 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:				
For an Intermittent Facility that has been commissioned: Y equals 0				
For all other facilities, including Intermittent Facilities that have not been commissioned: Y equals the greater of the Reserve Capacity Price and 85% of the Maximum Reserve Capacity Price for the relevant Reserve Capacity Auction, expressed as a \$ per MW per Trading Interval figure. This is determined by dividing the Monthly Reserve Capacity Price by the number of Trading Intervals in the relevant month.				

Clause 4.26.1A (new)

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 the forced outage in that Trading Interval measured in MW, 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 previous 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.

Clause 4.26.1B (new)

4.26.1B. The IMO must calculate the Forced Outage refund for each Market Participant (“**Participant Forced Outage Refund**”) as the sum of the Facility Forced Outage Refunds for each facility registered to the relevant Market Participant.

Clause 4.26.2

4.26.2. The IMO must determine the net STEM shortfall (“**Net STEM Shortfall**”) ~~capacity shortfall (“**Capacity Shortfall**”)~~ in Reserve Capacity supplied by each Market Participant p holding Capacity Credits in each Trading Interval t of Trading Day d and Trading Month m ~~relative to its Reserve Capacity Obligation Quantity~~ as:

$$SF(p,m,d,t) = \text{Max}(\text{RTFO}(p,d,t), \text{RCOQ}(p,d,t) - A(p,d,t)) + \text{Max}(0, B(p,d,t) - C(p,d,t)) - \text{RTFO}(p,d,t)$$

[balance of clause not changed]

Clause 4.26.3

4.26.3 For each Market Participant holding Capacity Credits, the IMO must determine the amount of the refund (“**Capacity Cost Refund**”) to be applied for Trading Month *m* ~~in respect of a Capacity Shortfall as defined in clauses 4.26.2 during that Trading Month~~. The Capacity Cost Refund is the lesser of:

- (a) the Maximum Participant Refund determined in accordance with the Refund Table, less all ~~Capacity Cost~~ Facility Forced Outage Refunds and all Net STEM Refunds applicable to the Market Participant in previous Trading Months falling in the same Capacity Year as Trading Month *m*; and
- (b) the sum over all Trading Intervals *t* in Trading Month *m* of the Participant Forced Outage Refund and Net STEM Refund,

where the Net STEM Refund is 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 Net STEM Capacity Shortfall in Trading Interval *t*.

Chapter 11 (Glossary)

Capacity Shortfall: ~~Has the meaning given in clause 4.26.2.~~

Facility Forced Outage Refund: Has the meaning given in clause 4.26.1A.

Forced Outage Shortfall: Has the meaning given in clause 4.26.1A.

Net STEM Refund: Has the meaning given in clause 4.26.3.

Net STEM Shortfall: Has the meaning given in clause 4.26.2.

Participant Forced Outage Refund: Has the meaning given in clause 4.26.1B.

2.4. 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 Wholesale Market Objectives. This preliminary assessment was published in a Rule Change Notice on 21 December 2007.

3. SUBMISSIONS

3.1. *Market Advisory Committee*

The Market Advisory Committee (MAC) was first advised of the proposed rule change at its meeting on 12 December 2007, before it was formally submitted by the IMO. At the meeting MAC was in agreement that the issue highlighted in the IMO proposal could have significant unintended consequences for Participants with facility portfolios and that this created a potential for unequal treatment which must be corrected. MAC expressed its support for the proposal.

3.2. *Submission from Synergy*

The IMO received one submission, from Synergy. The submission is published on the IMO website. Synergy submitted that it viewed the IMO's proposal as having some technical merit and that it did not foresee any material adverse impacts on Synergy's operations.

Synergy also accepted the IMO's view that the proposed rule change would support the market objectives as outlined in the IMO's proposal.

Synergy expressed support for the proposal at this stage.

3.3. *Public Forums and Workshops*

No public forums or workshops were held in relation to this Rule Change Proposal.

4. THE IMO'S ASSESSMENT AND DECISION

4.1. Assessment

4.1.1. Submissions

All responding parties expressed support for the Rule Change Proposal. No party proposed any changes to the proposed amendments to the Market Rules.

4.1.2. Additional Amendments

After publishing the Rule Change Notice, the IMO has identified the need to address a few minor typographical errors and potential ambiguities in the proposed amending rules and have modified the proposed amendments accordingly to correct these matters.

Further, to improve the clarity of the relevant calculations, the amendments to clause 2.26.3 (a) need to be reversed as follows:

- Proposal: the Maximum Participant Refund determined in accordance with the Refund Table, less all ~~Capacity Cost~~ Facility Forced Outage Refunds and all Net STEM Refunds applicable to the Market Participant in previous Trading Months falling in the same Capacity Year as Trading Month m; and
- Draft Decision: the Maximum Participant Refund determined in accordance with the Refund Table, less all Capacity Cost applicable to the Market Participant in previous Trading Months falling in the same Capacity Year as Trading Month m; and

Section 6 of this report contains the revised amending rules.

4.1.3. 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.*

The current rules may favour potentially inefficient registration of multiple single-Facility portfolios. This proposal will, therefore, ensure that the Market Rules are more consistent with the operation of market objective (a).

- (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 under the current rules different Market Participants face different incentives in respect to addressing major forced outages. The current rules create the potential for higher total refunds to be applied to participants with more than one Facility in their portfolios. Ensuring that all participants, regardless of their portfolio size, receive equitable treatment in regard to reserve capacity refunds, will assist in encouraging competition in the market, and thus enable the Market Rules to better address market objective (b).

- (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 market objective (c).

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

There is a risk that overhead costs in the SWIS could increase if Market Participants with more than one Facility opt to register multiple participants with single plant portfolios. By removing the inequitable treatment of multiple Facility portfolios, the proposal will ensure the Market Rules are consistent with the operation of market objective (d).

- (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 market objective (e).

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 will require changes to the Wholesale Electricity Market Systems operated by the IMO. These changes have been estimated to cost around \$26,000. No other costs have been identified in relation to the implementation of the proposed changes.

4.2. IMO's Draft Decision

The IMO's draft decision is to:

- Implement the amendments to clauses 4.26.1, 4.26.2, 4.26.3, and the Glossary of the Wholesale Electricity Market Rules, as outlined in section 6 of this report.
- Implement the new clauses 4.26.1A and 4.26.1B of the Wholesale Electricity Market Rules, as outlined in section 6 of this report.

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

The wording of the relevant Amending Rules is presented in section 6 of this Report.

5. CALL FOR SUBMISSIONS

The IMO wishes to receive submissions regarding this Draft Rule Change Report. The submission period is 20 Business Days from the publication date of this Report.

Submissions must be delivered to the IMO by close of business on Wednesday, 2 April 2008.

The IMO prefers to receive submissions by email to marketadmin@imowa.com.au using the submission form available on the IMO website:
http://www.imowa.com.au/10_5_1_b_rule_change_proposal.htm

Submissions may also be sent to the IMO by fax or post, addressed to:

Independent Market Operator

Attn: Manager Market Administration

PO Box 7096

Cloisters Square, Perth, WA 6850

Fax: (08) 9254 4399

6. PROPOSED AMENDING RULES

The IMO proposes to implement the following amendments to the Market Rules (added words are underlined and deletions are shown with strikethrough):

Clause 4.26.1

- 4.26.1. If a Market Participant holding Capacity Credits 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 MW shortfall per Trading Interval)	0.25 x Y	0.25 x Y	0.5 x Y	0.75 x Y
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 <u>Participant</u> 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:				
For an Intermittent Facility that has been commissioned: Y equals 0				
For all other facilities, including Intermittent Facilities that have not been commissioned: Y equals the greater of the Reserve Capacity Price and 85% of the Maximum Reserve Capacity Price for the relevant Reserve Capacity Auction, expressed as a \$ per MW per Trading Interval figure. This is determined by dividing the Monthly Reserve Capacity Price by the number of Trading Intervals in the relevant month.				

Clause 4.26.1A (new)

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 its Forced Outage in that Trading Interval measured in MW; 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.

Clause 4.26.1B (new)

4.26.1B. The IMO must calculate the Forced Outage refund for each Market Participant (“**Participant Forced Outage Refund**”) as the sum of the Facility Forced Outage Refunds for each Facility registered to the relevant Market Participant.

Clause 4.26.2

4.26.2. The IMO must determine the net STEM shortfall (“**Net STEM Shortfall**”) ~~capacity shortfall (“**Capacity Shortfall**”)~~ in Reserve Capacity supplied by each Market Participant p holding Capacity Credits in each Trading Interval t of Trading Day d and Trading Month m ~~relative to its Reserve Capacity Obligation Quantity~~ as:

$$SF(p,m,d,t) = \text{Max}(\text{RTFO}(p,d,t), \text{RCOQ}(p,d,t) - A(p,d,t)) + \text{Max}(0, B(p,d,t) - C(p,d,t)) - \text{RTFO}(p,d,t)$$

[balance of clause not changed]

Clause 4.26.3

4.26.3 For each Market Participant holding Capacity Credits, the IMO must determine the amount of the refund (“**Capacity Cost Refund**”) to be applied for Trading Month *m* in respect of a Capacity Shortfall as defined in clauses 4.26.2 during that Trading Month. The Capacity Cost Refund is the lesser of:

- (a) the Maximum Participant Refund determined in accordance with the Refund Table, less all Capacity Cost Refunds applicable to the Market Participant in previous Trading Months falling in the same Capacity Year as Trading Month *m*; and
- (b) the Participant Forced Outage Refund plus the sum over all Trading Intervals *t* in Trading Month *m* of the Net STEM Refund,

where the Net STEM Refund is 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 Net STEM Capacity Shortfall in Trading Interval *t*.

Chapter 11 (Glossary)

Capacity Shortfall: ~~Has the meaning given in clause 4.26.2.~~

Facility Forced Outage Refund: Has the meaning given in clause 4.26.1A.

Forced Outage Shortfall: Has the meaning given in clause 4.26.1A.

Net STEM Refund: Has the meaning given in clause 4.26.3.

Net STEM Shortfall: Has the meaning given in clause 4.26.2.

Participant Forced Outage Refund: Has the meaning given in clause 4.26.1B.