

Independent Market Operator



Final Market Rule Change Report

Title: Maximum Refund

Ref: RC_2007_36

Date: 1 May 2008

CONTENTS

1.	INTRODUCTION	2
1.1.	General Information about Rule Changes	2
1.2.	About this Rule Change	2
2.	THE RULE CHANGE PROPOSAL	4
2.1.	The Submission	4
2.2.	Details of the Proposal	4
2.3.	Amending Rules proposed by the IMO	5
2.4.	The IMO's Initial Assessment of the Proposal	5
3.	SUBMISSIONS RECEIVED IN THE FIRST SUBMISSION PERIOD	5
3.1.	Market Advisory Committee	5
3.2.	Submission from Synergy	5
3.3.	Public Forums and Workshops	5
3.4.	The IMO's Response to the First Round of Submissions	5
3.5.	Additional Amendments	5
4.	THE IMO'S DRAFT DECISION	5
5.	SUBMISSIONS RECEIVED IN THE SECOND SUBMISSION PERIOD	5
6.	THE IMO'S ASSESSMENT AND THE IMO'S FINAL DECISION	5
6.1.	The IMO's Assessment of the Rule Change Proposal	5
6.2.	The IMO's Final Decision	5
6.3.	Amending Rules Commencement	5
7.	AMENDING RULES	5

DOCUMENT DETAILS

IMO Notice No.: RC_2007_36
Report Title: Maximum Refund
Release Status: Public
Confidentiality Status: Public domain
Published in accordance with Market Rule 2.7.8

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 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 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, 4.26.2, 4.26.3, and the Glossary, and the addition of new clauses 4.26.1A and 4.26.1B of the Market Rules.

This Proposal has been processed using the Standard Rule Change Process, described in section 2.7 of the Wholesale Electricity 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.

- 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.
- The Draft Rule Change Report was published on 29 February 2008.
- The second public submission period was from 29 February to 2 April 2008.
- This Final Rule Change Report is published by the IMO on 1 May 2008.

Based on the response received from interested parties, and the IMO's assessment of the proposed changes against the Market Objectives, IMO's decision is to implement the rule changes as proposed by the IMO.

This Final 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.

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, 4.26.2, 4.26.3 and the Glossary, and the introduction of new clauses 4.26.1A and 4.26.1B 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,
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 RECEIVED IN THE FIRST SUBMISSION PERIOD

The first submission period for this Rule Change Proposal was between 21 December and 1 February 2008. The IMO received one submission, from Synergy. A summary of the submission is provided below. The full text of the submission can be found on the IMO website.

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's 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 that stage.

3.3. *Public Forums and Workshops*

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

3.4. *The IMO's Response to the First Round of Submissions*

No interested party expressed any concern regarding the proposed change. In its submission Synergy expressed its support for the proposal.

3.5. *Additional Amendments*

During the first submission period the IMO identified the need to address a few minor typographical errors and potential ambiguities in the proposed Amending Rules, and modified the proposed amendments accordingly to correct these matters.

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

Public Domain

- 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 7 of this report contains the revised Amending Rules as published in the Draft Rule Change Report.

4. THE IMO'S DRAFT DECISION

Based on the submissions received and its assessment against the Market Objectives, the IMO's draft decision was to implement the proposed changes to clauses 4.26.1, 4.26.2, 4.26.3 and the Glossary, and implement the new clauses 4.26.1A and 4.26.1B of the Wholesale Electricity Market Rules as outlined in section 7 of this report.

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

5. SUBMISSIONS RECEIVED IN THE SECOND SUBMISSION PERIOD

Following the Draft Rule Change Report publication on the IMO website, the second submission period was between 29 February and 2 April 2008. The IMO did not receive any submissions during the second submission period.

The IMO therefore considers that both the proposal and the IMO's draft decision have the support of the Participants in the Wholesale Electricity Market.

6. THE IMO'S ASSESSMENT AND THE IMO'S FINAL DECISION

No interested party expressed concerns regarding the amendments to the Market Rules outlined in the Draft Rule Change Report.

6.1. The IMO's Assessment of the Rule Change Proposal

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 considers that the proposed Amending Rules will have the following impact on how the Market Rules address the Wholesale Market Objectives:

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

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. The IMO, therefore, considers that the proposed changes to the Market Rules are required to maintain consistency with 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 allow the Market Rules to better address market objective (b).

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

There is a risk that administrative costs in the SWIS could increase if Market Participants with more than one Facility opt to register multiple participants with single plant portfolios. , The IMO considers that, by removing the inequitable treatment of multiple Facility portfolios, the proposed changes will maintain the consistency of the Market Rules with market objective (d).

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.

6.2. *The IMO's Final Decision*

The IMO's final decision is to:

- Implement the proposed changes to clauses 4.26.1, 4.26.2, 4.26.3 and the Glossary, and the new clauses 4.26.1A and 4.26.1B of the Wholesale Electricity Market Rules as outlined in section 7 of this report.

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

The wording of the relevant Amending Rules is presented in section 7 of this Report.

6.3. *Amending Rules Commencement*

The amendments to clauses 4.26.1, 4.26.2, 4.26.3, and the Glossary, and the new clauses 4.26.1A and 4.26.1B of the Wholesale Electricity Market Rules will commence at **08.00am on 1 June 2008**.

7. AMENDING RULES

The following clauses are amended (~~deleted wording~~, new wording):

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.