

# Independent Market Operator



## **Rule Change Notice**

### **Title: Maximum Refund**

Ref: RC\_2007\_36

Date: 21 December 2007

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## Independent Market Operator

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## 1. INTRODUCTION

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

The IMO will assess the proposal and, within 5 Business Days of receiving the Rule Change Proposal Form, will notify the proponent whether the Rule Change Proposal will be progressed further.

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 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.

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, while the Fast Track Process involves the IMO consulting with Rule Participants who either advise the IMO that they wish to be consulted or the IMO considers have an interest in the change.

## 2. THE RULE CHANGE PROPOSAL

### 2.1. The Submission

The IMO submitted, on 19 December 2007, a Rule Change Proposal regarding changes to clauses 4.26.1, 4.26.1A (new), 4.26.1B (new), 4.26.2, 4.26.3, and the Glossary in the Wholesale Electricity Market Rules.

This Rule Change Notice is published according to Market Rule 2.5.7, which requires the IMO to publish a notice within 7 Business Days of receiving a Rule Change Proposal.

#### 2.1.1. Submission details

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<b>Date submitted:</b>	19 December 2007
<b>Urgency:</b>	Medium
<b>Title:</b>	Maximum Refund

### 2.2. Details of the Proposal

The IMO submits that 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. The refund quantities are calculated across the sum of all facilities held by a Market Participant under the current provisions of clause 4.26.1.

The Refund Table includes a term “Maximum Refund”. The IMO 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” applies to the entire Facility portfolio associated with a Market Participant rather than to individual Facilities.

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. This proposed rule change will ensure that Market Participants are treated equitably with respect to their Reserve Capacity Refunds.

### 2.3. The Proposal and the Market Objectives

The IMO submits that under the current rules, different Market Participants face different incentives in respect to addressing major Facility outages. This situation hinders Market

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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”*. This objective will also be hindered, though to a lesser extent, if overhead costs are increased due to an increase in the number of Market Participants, as a result of the current Rules favouring Market Participants with single plant portfolios. This proposed rule change will ensure that the Market Rules better address Market Objective (a).

Further, by enhancing the efficiency of Market Participant operations, the proposed rule change will also support Market Objective (d) *“to minimise the long-term cost of electricity supplied to customers from the South West interconnected system”*.

### 3. WHETHER THE PROPOSAL WILL BE PROGRESSED FURTHER

The IMO has decided to proceed with this proposal on the basis that the IMO's preliminary assessment indicated that the proposal is consistent with the Market Objectives.

The proposal will be progressed according to the Standard Rule Change Process described in section 2.7 of the Market Rules.

The projected timelines for processing this proposal are:

- This Rule Change Notice published 21/12/2007
- First Submission period 21/12/2007 - 01/02/2008
- Draft Report published 29/02/2008
- Second submission period 04/03/2008 - 02/04/2008
- Final Report published 01/05/2008

#### 4. CALL FOR SUBMISSIONS

The IMO is seeking submissions regarding this proposal. The submission period is 6 weeks from the publication date of this notice. Submissions must be delivered to the IMO by close of business on **Friday 1 February 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\\_MarketRulesChangeSummary.html](http://www.imowa.com.au/10_5_1_MarketRulesChangeSummary.html)

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

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

Fax: (08) 9254 4399

## 5. PROPOSED AMENDING RULES

The IMO proposes the following amendments to the Market Rules (added words, ~~deleted words~~):

### **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**

<b>Dates</b>	<b>1 April to 1 October</b>	<b>1 October to 1 December</b>	<b>1 December to 1 February</b>	<b>1 February to 1 April</b>
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.