

Independent Market Operator



Draft Market Rule Change Report

Title: Reduction of Capacity Credits

Ref: RC_2008_06

Standard Rule Change Process

Date: 7 May 2008

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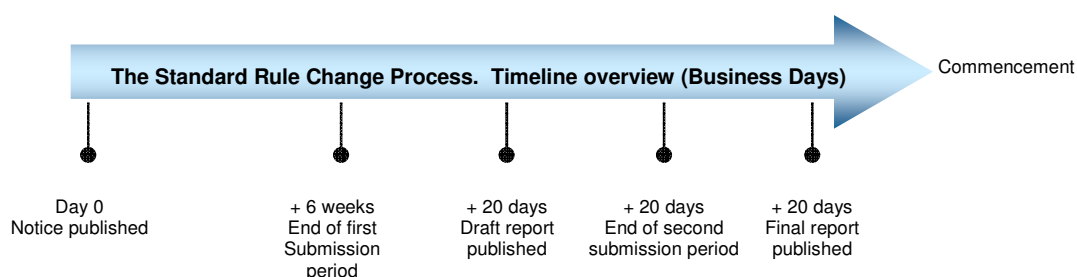
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1. INTRODUCTION

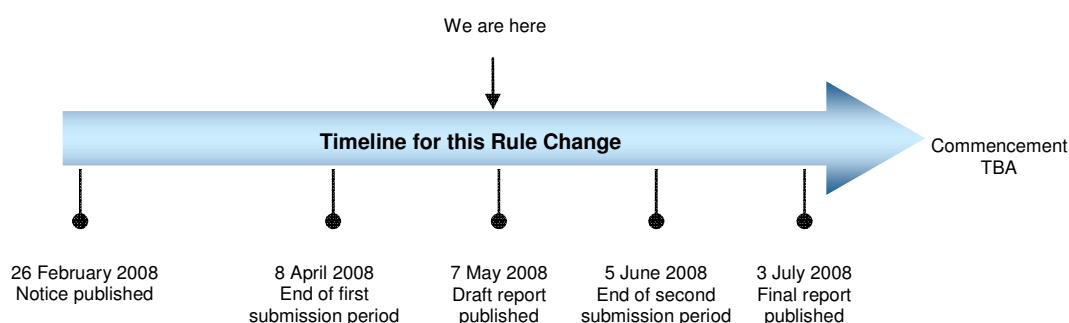
On 15 February 2008, TransAlta submitted a Rule Change Proposal regarding the addition of new clauses 4.25.4A, 4.25.4B, 4.25.4C and 4.25.4D to the Wholesale Electricity Market Rules.

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 key dates in processing this Rule Change Proposal are:



Based on the submissions received, the IMO's draft decision is to accept the Rule Change Proposal 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 5 June 2008.

2. THE RULE CHANGE PROPOSAL

2.1. Submission Details

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Organisation:	TransAlta Energy Australia
Address:	Level 36, Central Park, 152-158 St Georges Terrace, Perth WA 6000
Date submitted:	15 February 2008
Urgency:	Medium
Change Proposal title:	Reduction of Capacity Credits
Market Rules affected:	4.25.4A, 4.25.4B, 4.25.4C and 4.25.4D (all new)

2.2. Details of the Proposal

TransAlta submitted that section 4.25 of the Market Rules allows the IMO to reduce the Capacity Credits for a Facility as a result of subjecting the Facility to a Reserve Capacity test. However, the Market Rules do not allow the IMO to reduce the Capacity Credits without a test and do not allow the IMO to test a Facility while it is undergoing a forced outage. Participants are required to submit forced outages for the amount of capacity they are not able to deliver as soon as practicable after the commencement of those outages. This is required for system security reasons.

Section 4.25 of the Market Rules provides that Facilities are tested and then retested in the case where they fail to meet their Reserve Capacity Obligation Quantity (RCOQ). In the instance where a Facility fails to meet its RCOQ in both tests, its Capacity Credits are reduced.

However, section 4.25 of the Rules also prohibits the IMO from subjecting a Facility to a Reserve Capacity test if it is undergoing a forced outage. That is, a Facility for which a Participant has logged a forced outage can not be tested in order to have its Capacity Credits reduced in accordance with clause 4.25.4 of the Market Rules.

TransAlta submitted that its proposal aimed to amend the Market Rules to allow a Participant to request a reduction of the Capacity Credits assigned to one or more of its Facilities by providing a request in writing to the IMO. This will enable Facilities experiencing a forced outage, and thus not being able to undergo a capacity test, to have their Capacity Credits reduced. The intent of the Rules, however, is to provide strong incentives to Participants to endeavour to commission new Facilities on time to fully meet their Reserve Capacity Obligations. TransAlta therefore proposed to limit the ability to voluntarily reduce Capacity Credits to those Facilities which have already commissioned and have received back their Reserve Capacity deposit.

TransAlta argued that it is also important to avoid tactical use of the possibility to have Capacity Credits reduced during parts of the year and then later increased. Therefore a

Participant, having had its Capacity Credits reduced for a Facility under the proposed new clauses, will not be able to request to have its Capacity Credits increased in the same Reserve Capacity Cycle by undergoing a test under clause 4.25.5. Once reduced, the Capacity Credit will remain at this level throughout the Reserve Capacity Cycle, or longer if so requested in the application.

The changes proposed by TransAlta are outlined in section 6 of this Report.

2.3. The Proposal and the Wholesale Market Objectives

TransAlta submits that the proposal will allow the Market Rules to better address market objective (a):

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

Allowing Participants to apply for a reduction in their Capacity Credits to reflect the actual capabilities of their Facilities will enhance the certainty regarding the amount of reserve capacity available in the SWIS. According to TransAlta's proposal this will enable the IMO to address any reliability issues in a timely manner and thus promote the operation of Market Objective (a).

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 26 February 2008.

3. SUBMISSIONS

The IMO received two submissions, from the Economic Regulation Authority and Landfill Gas & Power Pty Ltd, on the changes proposed by TransAlta. The submissions are summarised below, and their full text is available 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 13 February 2008. At this meeting MAC members questioned a proposed requirement in clause 4.25.4B (b), that a facility has to be in operation for a full capacity year before being able to apply for a reduction of its capacity credits. MAC proposed that the requirement instead be linked to the repayment of the reserve capacity security deposit for a new facility, as this repayment is dependant on the facility having proven its ability to operate at its certified capacity. With this amendment, MAC supported the change.

MAC members were also invited to discuss the proposal, including the amendments proposed by MAC at its February meeting, at the MAC meeting on 12 March 2008, after the proposal had been published on the IMO website. All members of MAC expressed their support for the Rule Change. MAC also discussed whether capacity credits corresponding to a relevant reduction should be allowed to be reinstated in the following capacity year. The IMO explained that the current rules already treat participants differently by providing for capacity credits to be reduced or increased through testing several times during the capacity year. It would therefore be inappropriate to have an even more inequitable treatment of participants which have their capacity credits reduced through a participant application. MAC members were satisfied with the explanation.

3.2. Submission from the Economic Regulation Authority (ERA)

ERA expressed its support for the Rule Change Proposal.

3.3. Submission from Landfill Gas & Power Pty Ltd (LGP)

LGP expressed its support for the Rule Change Proposal. In its submission LGP supported TransAlta's contention that the proposed Rule Change would promote the economically efficient, safe and reliable production and supply of electricity. LGP also noted and appreciated that proper safeguards are proposed to prevent seasonal gaming and to retain the incentive for timely commissioning.

3.4. Public Forums and Workshops

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

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. 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 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	a
Consistent with objective	b, c, d and e
Inconsistent with objective	-

The IMO' assessment against market objective (a) 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.*

Allowing Participants to apply for a reduction in their Capacity Credits to reflect the actual capabilities of their Facilities will enhance the certainty regarding the amount of reserve capacity available in the SWIS. This will enable the IMO to address any reliability issues in a timely manner and thus allow the market objectives to better address market objective (a). In its submission, Landfill Gas and Power supported this assessment.

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 not require any changes to the Wholesale Electricity Market Systems operated by the IMO. 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 accept the proposed addition of clauses 4.25.4A, 4.25.4B, 4.25.4C and 4.25.4D to the Wholesale Electricity Market Rules.

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 Thursday, 5 June 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 accept the following amendments to the Market Rules (added words are underlined and deletions are shown with ~~striketrough~~):

Clause 4.25.4A

4.25.4A A Market Participant may apply to the IMO for a reduction in the number of Capacity Credits the Market Participant holds for a Facility.

Clause 4.25.4B

4.25.4B In order for an application under clause 4.25.4A to be assessed by the IMO, it must:

- (a) be in writing;
- (b) relate to a Facility for which the IMO has notified the Market Participant, in accordance with clause 4.13.10, that the need to maintain the Reserve Capacity Security for that Facility has ceased;
- (c) detail the reasons for the reduction in the number of Capacity Credits; and
- (d) indicate whether the application relates only to the current Reserve Capacity Year or includes subsequent Capacity Years.

Clause 4.25.4C

4.25.4C Upon receiving an application under clause 4.25.4A, the IMO, at its sole discretion, must:

- (a) assess the application and any supporting documentation;
- (b) within 10 Business Days of receiving the application inform the Market Participant of its decision whether to reduce the Capacity Credits and the reasons for its decision; and
- (c) if applicable, reduce the amount of Capacity Credits held by the Market Participant in respect of the Facility to which the application relates.

Clause 4.25.4D

4.25.4D A Market Participant may not apply to the IMO for an increase in the number of Capacity Credits for a Facility during a Capacity Year if the Facility has had its Capacity Credits reduced in accordance with clause 4.25.4C for any part of that Capacity Year.

7. GENERAL INFORMATION ABOUT RULE CHANGE PROPOSALS

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.