

Independent Market Operator



Draft Market Rule Change Report

Title: Capacity Credits and Facility Aggregation

Ref: RC_2008_10

Standard Rule Change Process

Date: 16 April 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.	The IMO's Initial Assessment of the Proposal	5
3.	SUBMISSIONS	6
3.1.	Market Advisory Committee	6
3.2.	Submission from Landfill Gas & Power Pty Ltd (LGP)	6
3.3.	Public Forums and Workshops	6
4.	THE IMO'S ASSESSMENT AND DECISION.....	7
4.1.	Assessment.....	7
4.2.	IMO's Draft Decision	8
5.	CALL FOR SUBMISSIONS	9
6.	PROPOSED AMENDING RULES.....	10

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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 process or a Fast Track 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 15 February 2008 the IMO submitted a Rule Change Proposal regarding changes to clauses 2.30.4 and 2.30.5, and the addition of new clauses 2.30.1A and 4.23A.4 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 first Public Submission period is 30 Business Days from the date 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.

Public Domain

- 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 20 February 2008.
- The first Public Submission period on the Rule Change Proposal ended on 2 April 2008.
- This Draft Rule Change Report is published on 16 April 2008.
- The second Public Submission period is from 17 April 2008 to 15 May 2008.
- The Final Rule Change Report will be published by the IMO on 13 June 2008.

Based on the submissions received, the IMO's draft decision is to implement the Rule Change in the proposed 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 15 May 2008.

2. THE RULE CHANGE PROPOSAL

2.1. The Submission

The IMO submitted, on 15 February 2008, a Rule Change Proposal regarding changes to clauses 2.30.4 and 2.30.5 and the addition of new clauses 2.30.1A and 4.23A.4 to the Wholesale Electricity Market Rules (Market Rules).

2.1.1. Submission Details

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Address:	221 St George's Terrace, Perth WA 6000
Date submitted:	15/02/2008
Urgency:	Medium
Change Proposal title:	Capacity Credits and Facility Aggregation

2.2. Details of the Proposal

The IMO submitted that the current clause 4.23A.3 of the Market Rules provides that if, at any time, a Market Participant holds Capacity Credits with respect to an Aggregated Facility, for which aggregation is being revoked, and that Facility must be registered as more than one Registered Facility, then the IMO may re-allocate the Certified Reserve Capacity, Capacity Credits and Reserve Capacity Obligation Quantities from the Aggregated Facility to the Registered Facilities. This is subject to a number of conditions specified in clause 4.23A.3.

A number of Market Participants, holding Capacity Credits, have indicated that the efficiency of their operations would be enhanced if they were permitted to aggregate some of their facilities and the Capacity Credits assigned to those facilities. The Market Rules do not explicitly provide for this at present, especially with respect to facilities that have current Reserve Capacity Obligations. The IMO considered that, given that the Market Rules already provide for the "disaggregation" of Capacity Credits as a result of Facility disaggregation, it would be appropriate to allow the "aggregation" of Capacity Credits as a result of the IMO's approval of facility aggregation, and the IMO proposes to amend the Market Rules accordingly.

As with the existing clause 4.23A.3, a number of conditions would have to be attached to the new clause allowing the "aggregation" of Capacity Credits as a result of facility aggregation. Importantly, the information submitted with the application for certification of Reserve Capacity for the Registered Facilities must remain satisfactory at the time the IMO approves their aggregation as a single aggregated facility. The IMO noted that that

information includes, amongst other things, evidence that the Facility is entitled to have network access for its total Certified Reserve Capacity.

Further, IMO submitted that in regard to aggregated facilities in general, it is important that the IMO and System Management can be provided with the same data for the individual facilities as before the aggregation; for example in regard to fuel usage, and individual unit capabilities and characteristics. Therefore, it was proposed to amend clause 2.30.5 to allow the IMO to impose conditions related to the continued provision of individual unit data when making its decision on the aggregation. At its meeting in December 2007, the Market Advisory Committee (MAC) expressed concerns that an aggregated facility comprised of a liquid and a non-liquid plant could bid its entire capacity at above the non-liquid fuel price cap. The amendment to clause 2.30.5 is aimed at addressing this issue by ensuring that such behaviour can be readily monitored by the IMO.

The IMO also proposed to limit the ability of a Rule Participant to aggregating a Facility once in each Capacity Year to address an additional concern raised by MAC.

Further, the IMO proposed to amend clause 2.30.4 to also include the Network Operator as a party the IMO must consult with in regard to Facility aggregation. This will enable the Network Operator to provide the IMO with information regarding any network related issues in regard to the aggregation.

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

2.3. *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 20 February 2008.

3. SUBMISSIONS

The IMO received one submission, from Landfill Gas & Power Pty Ltd (LGP), on the changes proposed by the IMO. The submission is summarised below, and the full text of the submission 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 12 December 2007. At this meeting MAC raised concerns that an aggregated facility comprised of a liquid and a non-liquid plant could be allowed to bid above the normal price cap. MAC also proposed that a limit of one aggregation per year per facility be set in the rules, in order to avoid a facility aggregating and disaggregating numerous times over a capacity year.

The IMO amended its proposal to address the concerns raised by MAC. The IMO presented a revised discussion paper to MAC at its meeting on 13 February 2008. All members of MAC supported the Rule Change as revised by the IMO. No member expressed concerns with the proposed changes.

MAC members were also invited to discuss the proposal 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.

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

LGP expressed its support for the Rule Change Proposal. In its submission LGP supported the IMO's contention that, by enhancing the efficiency of participant operations, the proposal would support market objective (d).

3.3. *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' 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.*

Aspects of the proposal are intended to ensure that system reliability is maintained in the event Capacity Credits are allowed to be aggregated by the IMO. The proposal achieves this by ensuring that an aggregated facility will be required to provide the same total reserve capacity as before the aggregation.

The IMO considers that enabling the aggregation of Capacity Credits as a result of the IMO approval of facility aggregation will enhance the efficiency of participant operations in certain circumstances and thus promote economic efficiency in the market.

The IMO considers that the proposed changes, therefore, support 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 the proposed changes do not impact on, and therefore are consistent with, the operation of 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*

Enhancing the efficiency of participant operations will assist in minimising the long-term cost of electricity supply.

The IMO considers that the proposed changes, therefore, support the operation of market objective (d). In its submission, Landfill Gas and Power supported this assessment.

- (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 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 implement the amendments to clauses 2.30.4 and 2.30.5, and the new clauses 2.30.1A and 4.23A.4 of 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, 15 May 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 ~~strike through~~):

Clause 2.30.1A

2.30.1A. For each Capacity Year the IMO may only accept an application under clause 2.30.1 once with respect to each Facility.

Clause 2.30.4

2.30.4. The IMO must consult with System Management and the relevant Network Operator when assessing an application for Facility aggregation and inform the relevant Rule Participant whether the aggregation of the facilities is allowed.

Clause 2.30.5

2.30.5. The IMO must only allow the aggregation of facilities if, in its opinion:

- (a) the aggregation will not adversely impact on System Management's ability to maintain power system Security and Reliability;
- (b) adequate control and monitoring equipment exists for the aggregated Facility;
- (c) none of the Facilities within the aggregated facility are subject to an Ancillary Service Contract or Network Control Service Contract that requires that Facility not be part of an aggregated facility; ~~and~~
- (d) with the exception of facilities aggregated under clause 2.30.3, the aggregated facilities are at the same location or have the same Loss Factor; and
- (e) System Management and the IMO will continue to be provided with the same Standing Data for each individual facility as before the facilities were aggregated.

Clause 4.23A.4

4.23A.4. If at any time a Market Participant holds Capacity Credits with respect to Registered Facilities, for which the IMO has approved aggregation as a single aggregated facility in accordance with clause 2.30.7, then the IMO may re-allocate the Certified Reserve Capacity, Capacity Credits and Reserve

Capacity Obligation Quantities of the Registered Facilities to the aggregated facility subject to the conditions that:

- (a) the information submitted with the application for aggregation must demonstrate that the aggregated facility can at all times meet the sum of the full Reserve Capacity Obligation Quantities of the Registered Facilities;
- (b) the IMO must allocate to the aggregated facility the Certified Reserve Capacity, Capacity Credits and Reserve Capacity Obligation Quantity it can provide based on information provided in the original application for Certified Reserve Capacity for the Registered Facilities;
- (c) after the re-allocation the Certified Reserve Capacity, the number of Capacity Credits and the Reserve Capacity Obligation Quantities of the aggregated facility must equal the sum of the Certified Reserve Capacities, the total number of Capacity Credits, and the sum of the Reserve Capacity Obligation Quantities originally held by the Registered Facilities; and
- (d) the Capacity Credits and the Reserve Capacity Obligation Quantities of the aggregated facility must at all times be capable of being disaggregated in accordance with clause 4.23A.3.