

Independent Market Operator



Rule Change Notice

Title: Capacity Credits and Facility Aggregation

Ref: RC_2008_10

Standard Rule Change Process

Date: 20 February 2008

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1. INTRODUCTION

Market Rule 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 submit this to the Independent Market Operator (IMO).

The IMO will assess the proposal and, within 5 Business Days of receiving the proposal form, will notify the proponent whether the 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 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; 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 Rule Change Process or a Fast Track Rule Change 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

IMO submitted, on 19 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 in the Wholesale Electricity Market Rules (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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Date submitted:	15/02/2008
Urgency:	Medium
Change Proposal title:	Capacity Credits and Facility Aggregation

2.2. Details of the Proposal

The IMO submits that 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 considers 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 as at the date and time the IMO has approved their aggregation as a single aggregated facility. The IMO notes 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 submits 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 is 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 expressed concerns that an aggregated facility comprised of a liquid and a non-liquid plant could be allowed to bid its entire capacity at above the normal price cap. The amended clause 2.30.5 proposes to address this issue by ensuring that such behaviour can be readily monitored by the IMO.

In order to avoid misuse of the ability to aggregate and disaggregate facilities, including moving the Reserve Capacity Credits between the individual facilities and the aggregated facility, the IMO proposes to limit a Rule Participant to one aggregation and one disaggregation event per Facility in each Capacity Year.

Further, the IMO proposes 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 input on any network related issues in regard to the aggregation.

2.3. The Proposal and the Wholesale Market Objectives

The IMO submits that enabling the “aggregation” of Capacity Credits as a result of the IMO approval of facility aggregation would enhance the efficiency of operations in certain circumstances and thus promote economic efficiency in the market. The Rule Change Proposal would provide certainty to existing and new participants as to whether such “aggregation” of Capacity Credits is in fact allowed under the Market Rules which currently appear to lack clarity in this respect.

Aspects of this 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 all arrangements regarding the Certified Reserve Capacity remain in place after the aggregation and that both System Management and the Network Operator are consulted as part of the aggregation process. As such, the proposal is consistent with the market objective “to promote the economically efficient, safe and reliable production and supply of electricity and electricity related services in the South West interconnected system”.

By enhancing the efficiency of participant operations, the proposal would also support the market objective “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 Wholesale Market Objectives.

The IMO has decided to process this Rule Change Proposal using 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 20/02/2008
- First Submission period 20/02/2008 - 02/04/2008
- Draft Report published 16/04/2008
- Second submission period 17/04/2008 - 15/05/2008
- Final Report published 13/06/2008

4. CALL FOR SUBMISSIONS

The IMO is seeking submissions regarding this proposal. The submission period is six weeks from the publication date of this notice. 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_MarketRulesChangeSummary.html

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

5. PROPOSED AMENDING RULES

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

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 2.30.8

2.30.8. Where the IMO considers, after consultation with System Management, that a change in one or more of the criteria in clause 2.30.5 means that an aggregated facility should no longer be aggregated, it must inform the relevant Rule Participant of the date on which the aggregated facility will be considered to have been disaggregated.

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.