



**Independent Market Operator**

**Rule Change Notice**

**Title: Funding of  
Supplementary Reserve  
Capacity**

**Ref: RC\_2008\_27**

**Standard Rule Change Process**

**Date: 29 August 2008**

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## 1. THE RULE CHANGE PROPOSAL

### 1.1. The Submission

On 28 August 2008 the Independent Market Operator (IMO) submitted a Rule Change Proposal regarding changes to clauses 4.28.3 and 4.28.4 of 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.

#### 1.1.1 Submission details

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<b>Date submitted:</b>	<i>28<sup>th</sup> August 2008</i>
<b>Urgency:</b>	<i>3-high</i>
<b>Change Proposal title:</b>	Funding of Supplementary Reserve Capacity

### 1.2. Details of the Proposal

The IMO submits that under the current Market Rules, the IMO must separate the total costs of funding Capacity Credits into two separate sets – a Targeted Reserve Capacity Cost and a Shared Reserve Capacity Cost.

The IMO explains in its proposal that the Targeted Reserve Capacity Cost is the cost of Reserve Capacity that is shared amongst those Market Customers who have not been allocated enough Capacity Credits for the trading month to cover their Individual Reserve Capacity Requirements. Under the current Market Rules, the Targeted Reserve Capacity Cost includes the net payments to be made by the IMO under any Supplementary Capacity Contracts.

The IMO posits that the Shared Reserve Capacity Cost, on the other hand, is the cost of Reserve Capacity to be shared amongst all Market Customers for the Trading Month. This cost, for example, will include the cost of any surplus of Capacity Credits relative to the Reserve Capacity Requirement.

According to the IMO, this current arrangement for funding the costs of the Supplementary Capacity Contracts does not appear to be equitable. At the extreme, if all but one Market Customer fully covered their Individual Reserve Capacity Requirements, the entire cost of any existing Supplementary Capacity Contracts would be covered by that one participant. This would be particularly inequitable if the need to acquire Supplementary Capacity was caused by

the unavailability of a generator whose Capacity Credits were used to cover the Individual Reserve Capacity Requirements of a different Market Customer.

The IMO's rule change proposal aims to correct this potential inequity in the Market Rules by removing the net payments made by the IMO under any Supplementary Capacity Contracts from the Targeted Reserve Capacity Cost and including these in the Shared Reserve Capacity Cost.

The Supplementary Reserve Capacity Working Group formed by MAC agrees that this proposal should be progressed as soon as practicable. It notes, however, that the Working Group is yet to fully deliberate on the appropriate funding for the additional costs associated with the use of the Supplementary Reserve Capacity mechanism and the distribution of these costs amongst Market Participants. The Working Group notes, therefore, that there may be further proposed changes to the mechanism once it has concluded its discussions.

### **1.3. The Proposal and the Wholesale Market Objectives**

The IMO submits that the Rule Change Proposal will have the following impact on the market objectives:

*(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 IMO submits that the proposal supports market objective (a) by promoting the economically efficient supply of electricity in the South West Interconnected System. This will be achieved by spreading the cost of Supplementary Reserve Capacity across all Market Customers rather than targeting individual Market Customers which may have little to do with triggering these costs.

*(b) to encourage competition among generators and retailers in the South West interconnected system, including by facilitating efficient entry of new competitors;*

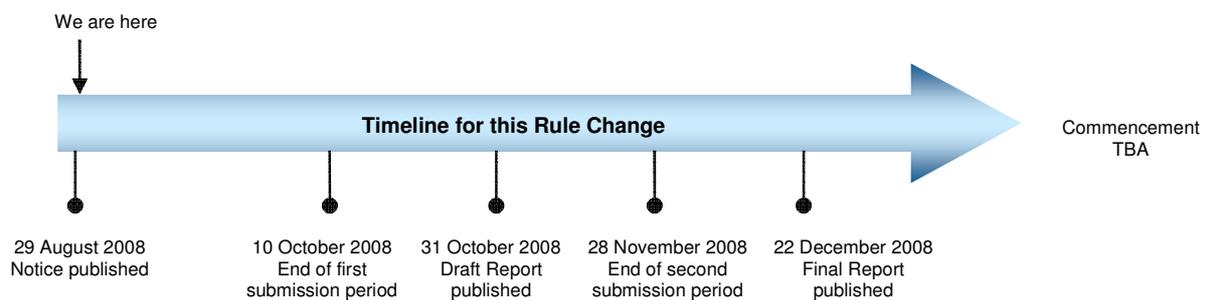
The IMO also submits that the proposal supports market objective (b) by encouraging competition among retailers in the South West interconnected system. This will be achieved by correcting the apparent inequitable treatment of some retailers under the current Market Rules.

## 2. 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:



### 3. 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 **Friday 10 October 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: Manager Market Administration  
PO Box 7096  
Cloisters Square, Perth, WA 6850

Fax: (08) 9254 4399

## 4. PROPOSED AMENDING RULES

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

4.28.3. For each Trading Month, the IMO must calculate the Targeted Reserve Capacity Cost being the sum of:

(a) ~~the cost defined under clause 4.28.1(a); and~~

(b) ~~the net payments to be made by the IMO under Supplementary Capacity Contracts less any amount drawn under a Reserve Capacity Security by the IMO and distributed in accordance with clause 4.13.11(a),~~

and the IMO must allocate this total cost to Market Customers in proportion to each Market Customer's Individual Reserve Capacity Requirement less the quantity of Capacity Credits allocated to that Market Customer in accordance with clauses 9.4 and 9.5.

4.28.4. For each Trading Month, the IMO must calculate a Shared Reserve Capacity Cost being the sum of:

(a) the cost defined under clause 4.28.1(b); and

(aA) the net payments to be made by the IMO under Supplementary Capacity Contracts less any amount drawn under a Reserve Capacity Security by the IMO and distributed in accordance with clause 4.13.11(a); less

(b) the Capacity Cost Refunds for that Trading Month; less

(bA) the Intermittent Load Refunds for that Trading Month; less

(c) any amount drawn under a Reserve Capacity Security by the IMO and distributed in accordance with clause 4.13.11(b)

and the IMO must allocate this total cost to Market Customers in proportion to each Market Customer's Individual Reserve Capacity Requirement.

## 5. ABOUT RULE CHANGE PROPOSALS

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.