



Draft Rule Change Report

Title: Early Certified Reserve Capacity

Ref: RC_2009_10
Standard Rule Change Process

Date: 7 July 2009

CONTENTS

1.	INTRODUCTION	3
2	CALL FOR SECOND ROUND SUBMISSIONS.....	4
3.	THE RULE CHANGE PROPOSAL.....	4
3.1	Submission Details.....	4
3.2	Details of the Proposal	4
3.3	The Proposal and the Wholesale Market Objectives	6
3.4	Amending Rules proposed by the IMO	6
3.5	The IMO's Initial Assessment of the Proposal	6
4.	FIRST SUBMISSION PERIOD	6
4.1	Submissions received	6
4.1.1	Submission from Alinta.....	6
4.1.2	Submission from Aviva Corporation.....	8
4.1.3	Submission from Griffin Energy	9
4.1.4	Submission from Landfill Gas & Power.....	10
4.2	The IMO's Assessment of First Submission period responses	10
4.3	Public Forums and Workshops	12
4.4	Additional Amendments	13
5.	THE IMO'S ASSESSMENT	14
5.1	Wholesale Market Objectives.....	15
5.2	Practicality and Cost of Implementation.....	16
5.3	Views expressed in submissions	16
5.4	Market Advisory Committee	16
6.	THE IMO'S DRAFT DECISION	17
7.	PROPOSED AMENDING RULES	18

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1. INTRODUCTION

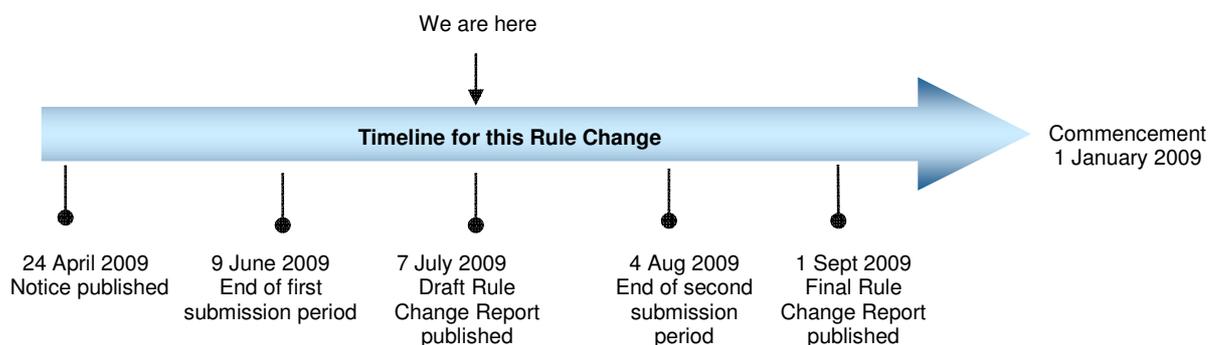
On 21 April 2009 the Independent Market Operator (IMO) submitted a Rule Change Proposal regarding changes to clauses 4.1.1A, 4.5.2, 4.9.3, 4.11.1, 4.12.6, 4.15.1, 4.15.2, Chapter 11 Glossary and Appendix 3, and the addition of clauses 4.28C, 4.28C.1, 4.28C.2, 4.28C.3, 4.28C.4, 4.28C.5, 4.28C.6, 4.28C.7, 4.28C.8, 4.28C.9, 4.28C.10, 4.28C.11, 4.28C.12, 4.28C.13, 4.28C.14, 4.28C.15 of the Wholesale Electricity Market Rules (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:



The key dates in processing this Rule Change Proposal are:



Please note the commencement date is provisional and may be subject to change in the Final Rule Change Report.

The IMO's draft decision is to accept the Rule Change Proposal, as modified in section 4.5. The detailed reasons for the IMO's decision are set out in section 5 of this report.

In making its draft decision on the Rule Change Proposal, the IMO has taken into account:

- the Wholesale Market Objectives;
- the practicality and cost of implementing the proposal;
- the views of the Market Advisory Committee (MAC); and
- the submissions received.

All documents related to this Rule Change Proposal can be found on the IMO website: http://www.imowa.com.au/Attachments/RuleChange/RuleChange_2009_10.html.

2 CALL FOR SECOND ROUND SUBMISSIONS

The IMO invites interested stakeholders to make submissions on 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 5.00pm, **Tuesday 4 August 2009**.

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 and System Capacity
 PO Box 7096
 Cloisters Square, PERTH, WA 6850
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3. THE RULE CHANGE PROPOSAL

3.1 Submission Details

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Date submitted:	21 April 2009
Urgency:	Medium
Change Proposal title:	Early Certified Reserve Capacity
Market Rules affected:	Clauses 4.1.1A, 4.5.2, 4.9.3, 4.11.1, 4.12.6, 4.15.1, 4.15.2, 4.28C (new), 4.28C.1 (new), 4.28C.2 (new), 4.28C.3 (new), 4.28C.4 (new), 4.28C.5 (new), 4.28C.6 (new), 4.28C.7 (new), 4.28C.8 (new), 4.28C.9 (new), 4.28C.10 (new), 4.28C.11 (new), 4.28C.12 (new), 4.28C.13 (new), 4.28C.14 (new), 4.28C.15 (new), Chapter 11 Glossary and Appendix 3

3.2 Details of the Proposal

A number of Market Participants and potential developers consider that the current Reserve Capacity Cycle does not adequately accommodate projects that are subject to long lead times. It has been suggested that financiers are unlikely to finance projects based solely on Conditional Certified Reserve Capacity. Conditional Certified Reserve Capacity may be obtained in advance but does not guarantee that Capacity Credits will be subsequently assigned to the Facility. Certainty is only available if the Facility is considered by the IMO to be *under construction*, (a term which is proposed to be changed to *committed* in Rule Change Proposal RC_2009_07), when bilateral trade declarations are submitted around 10 August each year.

In its proposal, the IMO considered that there is merit in providing additional security to project developers who can demonstrate commitment to a project beyond the current timeframes. This would facilitate new entry to the market and therefore promote competition.

For new generation Facilities, the IMO proposed to extend the timeframes for Certification of Reserve Capacity and assignment of Capacity Credits. This will allow projects with long lead times to secure Capacity Credits earlier and provide greater certainty for investors. Since longer lead times are mostly relevant for new plant, the IMO proposed that the new timeframe apply only to new generation Facilities. It will not apply to upgrades to generation Facilities or to Demand Side Programmes.

To distinguish this option from the normal certification process in the Rules, the IMO proposed to introduce a new concept of **Early Certified Reserve Capacity** (ECRC) in conjunction with the current Conditional Certification of Reserve Capacity provisions. ECRC, and subsequently assigned Capacity Credits, will be granted and made available for the applicable Capacity Year and will require no further application to the IMO. Facilities assigned Conditional Certified Capacity will still need to apply for Certified Reserve Capacity (CRC) in Year 1.

The IMO proposed that the criteria for being assigned ECRC will be in line with the criteria for being assigned CRC. These criteria are more stringent than for Conditional Certification. In particular, the proposed new criteria and conditions for applying for ECRC are:

- ECRC applications are limited up to 1 January of year 1 of the Reserve Capacity Cycle in which the new Facility will first enter service. From 1 January of year 1 of the Reserve Capacity Cycle for which the application relates, the Facility has to enter the normal certification cycle [outlined in proposed new clause 4.28C.2];
- the Facility must be deemed to be committed by the IMO in order to apply for ECRC [outlined in proposed new clause 4.28C.1 (c)];
- the Market Participant must declare its intention to trade all assigned capacity bilaterally [outlined in proposed new clauses 4.28C.4 and 4.28C.6];
- the Facility must apply each year for ECRC for subsequent Reserve Capacity Cycles and can only apply for one cycle per year [outlined in proposed new clause 4.28C.3];
- subsequent ECRC applications (in case of a failed initial application) for the same Capacity Year will be subject to a processing fee [outlined in clause 4.9.3 (c)];
- the Market Participant must provide Reserve Capacity Security within 30 Business Days of approval of ECRC [outlined in proposed new clause 4.28C.6]; and
- in the interest of maintaining an equivalent basis between Facilities granted ECRC and Facilities granted CRC the security provided at the time of ECRC will be revised in year 1 of the Reserve capacity Cycle to which it relates [outlined in proposed new clause 4.28C.12].

The concept of ECRC was discussed by the MAC at its December 2008 and February 2009 meetings. This Rule Change Proposal is based on the outcomes of MAC's discussions and other consultation with industry representatives. The Reserve Capacity

Market Procedure will also be amended to reflect the changes in this proposal if this Rule Change Proposal is accepted.

3.3 *The Proposal and the Wholesale Market Objectives*

The IMO submitted that the proposed changes will allow the Market Rules to better address market objective (b):

“to encourage competition among generators and retailers in the South West interconnected system, including by facilitating efficient entry of new competitors”

By facilitating the entry of new generation Facilities with long lead times as it will add certainty to the income stream around Capacity Credits. It is expected that this will have a positive effect on the ability for a Market Participant to secure financing for a new generation Facility.

The IMO considered that the proposed changes are consistent with market objectives (a), (c), (d) and (e).

3.4 *Amending Rules proposed by the IMO*

The Amending Rules originally proposed by the IMO were presented in the Rule Change Notice, available on the IMO website.

3.5 *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.

The details of the IMO’s assessment of the Rule Change Proposal against the market objectives were published in the Rule Change Notice on 24 April 2009.

4. FIRST SUBMISSION PERIOD

The first submission period for this Rule Change Proposal was between 28 April 2009 and 9 April 2009.

4.1 *Submissions received*

The IMO received submissions from Alinta, Aviva Corporation (Aviva), Griffin Energy, and Landfill Gas & Power (LGP). The IMO also received an out of session submission from Synergy noting support for the Rule Change Proposal.

The details of the submissions received during the first submission period are summarised below.

The full text of the public submissions is available on the IMO website.

4.1.1 *Submission from Alinta*

Alinta submitted that it does not support the proposal as, in its opinion:

- it lacks certain benefits;
- would introduce additional complexity into the Market Rules; and
- may result in less efficient market outcomes.

In particular:

- Alinta considers that there is no evidence provided to indicate a need to amend the existing Market Rules;
- Alinta notes that the Rule Change Proposal does not indicate what constitutes a “long” lead time;
- Alinta submitted that it is implied in the proposal that the amendments are necessary to provide certainty to developers of generation projects, however the proposal would make the assignment of Capacity Credits through the ECRC mechanism contingent on the Facility being deemed to be “committed” by the IMO. In addition Alinta notes the following points:
 - the argument, in part, in support of RC_2009_07 was that references to “under construction” discriminated against Facilities with a short construction period that did not require to physically be constructed at least 24 months ahead of the Facility entering the market;
 - it is clear from the proposed definition of “committed” in RC_2009_07 that a generation project must have been subject to, and passed, a Final Investment Decision (FID); and
 - to the extent that arranging project finance for a proposed generation project is a necessary precursor to a FID, it appears that the proposed ECRC mechanism would not provide potential financiers with any greater certainty as to the assignment of Capacity Credits to the new Facility. That is, the introduction of ECRC is unlikely to have a positive effect on a Market Participant to secure financing for a proposed generation project.
- Alinta notes that the process to be followed by a Market Participant that has registered a Facility, or which intends to register as a Facility, for which it is applying for certification of Reserve Capacity is set out in clause 4.9, with information requirements set out in clause 4.10. Clause 4.11 then sets out the process that must be followed by the IMO in assigning Certified Reserve Capacity. Based on the existing provisions in the Market Rules Alinta contends that:
 - it is clear that although under the current Market Rules there may be uncertainty about the level of Capacity Credits that may ultimately be granted to a Facility there is little risk that Capacity Credits will not be assigned to a “committed” Facility;
 - uncertainty as to the level of Capacity Credits that might be assigned to a Facility by the IMO may be eliminated by applying for Conditional Certified Reserve Capacity; and
 - Conditional Certified Reserve Capacity may be sought at any time to provide certainty with respect to the level of Capacity Credits that would be assigned to a proposed Facility.

Alinta considers that to the extent that Rule Change Proposal does facilitate the entry of new generation capacity there is potential for ECRC to crowd out:

- new capacity from generation projects with relatively shorter lead times; and
- potential additional capacity from other sources that might otherwise be offered through the existing Reserve Capacity Mechanism (including additional capacity that might be available from upgrades of existing generation Facilities or Demand Side Management (DSM) programmes).

The Rule Change Proposal and the Wholesale Market Objectives

Alinta considers that RC_2009_10 is unlikely:

- to be consistent with market objectives (a) and (d) as to the extent that the propose ECRC mechanism does facilitate the entry of new generation capacity the “crowding out” of potential additional capacity from upgrades of existing generation Facilities of DSM programmes may result in inefficient and higher cost capacity entering the market;
- to facilitate efficient entry of new competitors (market objective (b)) given arranging project finance is a necessary precursor to FID and the proposed ECRC mechanism would not provide any greater certainty as to the assignment of Capacity Credits to the new Facility;
- to be consistent with market objective (c) as the proposed ECRC mechanism favours projects with longer lead time. This will result in a discrimination against particular energy options and technologies such as gas fuelled generation; and
- to affect the taking of measure to manage the amount of electricity used and when it is used (market objective (e)).

4.1.2 Submission from Aviva Corporation

In its submission Aviva provides support for the Rule Change Proposal on the following grounds:

- Certification of Reserve Capacity is currently designed around the construction of an Open Cycle Gas Turbine (OCGT) which is notionally a two year timeframe. Aviva considers that this is arbitrary and was initially designed for simplicity based on the concept that addition of an OCGT was the default option for new capacity;
- Certification is required for any generation Facility to enable it to operate in the Wholesale Electricity Market (WEM) but also as a prelude to being allocated Capacity Credits in an applicable Capacity Year;
- The current timing for Certified Reserve Capacity:
 - Does not take into account longer actual development/construction times for some complex OCGT's; and
 - Seems to be inadequate for base load plant, particularly coal fired power stations with construction in excess of two years;
- Aviva notes that Conditional Certification is a helpful mechanism for longer lead time plant but does not guarantee either full certification or allocation of Capacity

Credits to the Facility. Certainty is only available if the Facility is considered by the IMO to be “under construction” when bilateral trade declarations are submitted around 10 August each year;

- Aviva asserts that in difficult investment climates funding institutions have flagged the need to de-risk projects as much as possible. For a long lead time projects Aviva contends that at the proposed financing event, under the current Market Rules, only Conditional Certification would be available to the Facility, despite the fact that the project would be able to satisfy all the requirements for a committed project; and
- At the time of financial close, funding institutions would have to be comfortable with the risk that the Facility may not be allocated Capacity Credits for the applicable Capacity Year.

Aviva submitted that it strongly supports the Rule Change Proposal to allow ECRC for new Facilities. In particular, Aviva contends that the proposal will provide substantial benefits by granting long lead time projects the same certainty for certification and allocation of Capacity Credits as shorter lead time projects.

Aviva also notes that it supports the retention of Conditional Certification for projects. This is on the basis that it does flag to potential investors, and the market, the intention of the developer in regard to the project and signal its progress to achieve certification.

4.1.3 Submission from Griffin Energy

In its submission Griffin Energy submits that the proposal is a sensible measure to differentiate capacity in the Market Rules that is physically different by nature. In particular, Griffin Energy notes that the current settings require proponents to make investment decisions on long lead time generation Facilities before Capacity Credits can be secured.

Griffin Energy notes that while current generation technology dictates that long lead time Facilities are generally larger Facilities, that rely on long term bilateral contracts (and hence do not require Capacity Credit certainty for financing – as Capacity Credit risk is shared by the bilaterally contracting parties), it is desirable to mitigate this risk by creating certainty before bilateral negotiations are likely to be concluded.

Griffin Energy contends that it is also prudent to assume that new technology (that might be more reliant on Capacity Credit revenue to secure finance) might benefit from the extended timeframes, as by its nature, new technology Facilities will likely require longer lead times for a successful project development.

The Rule Change Proposal and the Wholesale Market Objectives

Griffin Energy submits that promoting more certainty for long lead time Facilities will:

- likely lead to a more economically efficient mix of generation investment in the SWIS (market objective (a));
- lead to more competition and facilitate efficient entry of new competitors, as new competitors of generation Facilities that are not typified by those which can be developed in the current timeframes will gain more traction in the market (market objective (b)); and

- remove an inherent discrimination against new generation Facilities requiring long development lead times (market objective (c)).

4.1.4 Submission from Landfill Gas & Power

LGP supports the Rule Change Proposal on the grounds that it facilitates the financing of long lead time generation projects.

In its submission LGP questions whether clause 4.28C.1 may not achieve the anticipated outcome on the grounds that a Facility is unlikely to be committed prior to receipt of certification/credits. LGP contends that it would be more constructive to:

- separate capacity certification from the allocation of Capacity Credits (as at present); and
- make only the allocation of credits conditional on commitment after certification has been granted.

LGP perceives that such an amendment would be minor but would preserve the intent.

The Rule Change Proposal and the Wholesale Market Objectives

LGP submits that it would also support market objective (a) as the rule favours long lead time generators, which may be expected to have lower production costs.

LGP agrees with the IMO's contention that the proposed changes will allow the Market Rule to better address market objective (b).

4.2 The IMO's Assessment of First Submission period responses

The IMO received three responses in favour of the Rule Change Proposal during the first submission period. In particular, Aviva, Griffin Energy, and LGP (while questioning one aspect) were supportive of the proposal on the grounds that it will facilitate the financing of long lead time projects.

Alinta does not support RC_2009_10 as it considers that the Rule Change Proposal lacks certain benefits, would introduce additional complexity into the Market Rules, and may result in less efficient market outcomes.

The IMO has responded to each of the issues raised during the first submission period below:

- LGP questioned whether the drafting of clause 4.28C.1 would achieve the anticipated outcomes as a Facility is unlikely to be committed prior to receipt of certification.

The IMO notes that LGP's suggestion to separate capacity certification from the allocation of Capacity Credits was initially considered prior to presenting the concept of ECRC to the MAC at the 10 December 2008 meeting. However the intent of the Rule Change Proposal is to provide greater certainty to both the market and investors, the IMO considers this alternative approach suggested by LGP would not have the intended outcome. The Rule Change Proposal will provide greater certainty of receiving Capacity Credits to Facilities which are committed with long lead times.

The IMO notes that proposed Facilities only receive Capacity Credits under the current Market Rules where there is a short fall. However, committed Facilities that declare their intention to trade bilaterally are guaranteed Capacity Credits. Therefore moving the timeframe that these Facilities receive Capacity Credits/CRC has no material impact on the level of Capacity Credits that would have been assigned for any Capacity Year.

The IMO also notes that providing ECRC to proposed Facilities would require the introduction of significantly greater complexity into the Reserve Capacity process as outlined in the Market Rules.

- Alinta submitted that there was no evidence provided to support amending the existing Market Rules, and that the proposal lacks certain benefits.

The IMO notes that discussions held with Market Participants and potential developers initially determined that the 28-month reserve capacity cycle does not adequately accommodate projects which are subject to long lead times. It was in response to these discussions that the concept of ECRC has been developed

Additionally, the IMO notes that the concept paper and Rule Change Proposal received the support of the MAC at the February and April 2009 meetings respectively. Likewise, the proposed changes received the support of the majority of submitters during the first submission period.

The IMO notes that by allowing projects with long lead times a surety of income this proposal better enables such projects to become financially viable, removing not only a barrier to entry which is apparent under the current Market Rules but also removing a discriminatory limitation on long lead time projects.

- Alinta submitted that as arranging project finance for a proposed generation project is a necessary precursor to a FID, the proposed ECRC mechanism would not provide potential financiers with any greater certainty as to the assignment of Capacity Credits to the new Facility.

The IMO notes that arranging project finance is not a necessary precursor to a FID and is a process that often occurs in parallel. In particular, an investor can commit to financing without complete project finance, i.e. if they have bought a generator but have not bought all the components and/or building materials. Further details of the factors which will be taken into consideration when assessing whether a project is “under construction” are contained in the Market Procedure for Declaration of Bilateral Trades and the Reserve Capacity Auction Procedure which is available on the IMO website:

http://www.imowa.com.au/10_5_1_a_vi_market_procedures.htm

The IMO also notes that the proposed changes will reduce the uncertainty associated with investing in Facilities with long lead times. For example, a coal power station taking four years to build needs to have been undertaking actual construction for two years before conditional certification can be granted. The proposed changes will mean that projects with long lead times would no longer be restricted to waiting to apply for certification two years out.

- Alinta consider ECRC may crowd out new generation from shorter lead time projects and potential additional alternative capacity.

The IMO notes that there would be no difference under the proposed Amending Rules as currently while there is uncertainty about the level of Capacity Credits that may be granted to a Facility it is unlikely that Capacity Credits will not be assigned to a Facility which is “in service” or “committed/under construction” Facility. Alinta notes this point in its submission. The IMO contends that the proposed changes will improve the transparency and certainty for developers making decisions.

- Alinta notes that the proposal does not define a long lead time.

The IMO notes that the purpose of the Rule Change Proposal is not to define a long lead time. Anyone who can demonstrate that they are committed to building a Facility can enter into the process and this timeframe can differ considerably between generation projects..

- Alinta considers that the proposal is inconsistent with market objective (c). This is because the ECRC mechanism favours projects with longer lead times which will result in a discrimination against particular energy options and technologies such as gas fuelled generation.

The IMO considers that the proposed changes will remove a current discrimination against longer lead time projects. The IMO notes that the proposed changes will allow for a more equivalent treatment of all new generation projects.

- Alinta considers that the proposal is inconsistent with market objective (a) and (d) in relation to crowding out alternative capacity from upgrades or DSM programmes which may result in inefficient and higher cost capacity entering the market.

The IMO considers that the proposed changes would not result in the crowding out of alternative capacity as all Capacity Credit providers, regardless of technology, will be able to enter the market if they declare an intention to trade bilaterally. Additionally, all committed Facilities will be entitled to receiving Capacity Credits from the date they are committed.

The IMO contends that the proposed changes will improve the transparency and certainty for developers making decisions.

- Alinta considers that the proposal is inconsistent with market objective (b). As arranging project finance for FID and the proposed ECRC mechanism would not provide any greater certainty as to the assignment of Capacity Credits to the new Facility, it is unlikely to facilitate efficient entry of new competitors.

The IMO considers that the proposed changes will make receiving Capacity Credits easier once a Facility is committed. The IMO reiterates that arranging project finance is not a requirement for receiving FID and often occurs in parallel. ECRC will mean that new entrant generators will be able to enter the market with a reduced level of financial risk.

4.3 Public Forums and Workshops

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

4.4 Additional Amendments

During the first public submission period the IMO considered that some changes to the proposed Amending Rules were required to improve the drafting.

These changes are as follows (~~deleted text~~, added text):

4.11.1. Subject to clause 4.11.7, the IMO must apply the following principles in assigning a quantity of Certified Reserve Capacity to a Facility for the Reserve Capacity Cycle to which the application relates:

...

(c) the IMO must not assign Certified Reserve Capacity to a Facility for a Reserve Capacity Cycle if:

...

iv. that Facility already has Capacity Credits assigned to it under Clause 4.28C for the Reserve Capacity Cycle.

The following proposed amendment to clause 4.11.1.(c).iv. is conditional on the outcome of the RC 2009 11 – Changing the Window of Entry into the Reserve Capacity Market. In the case that RC 2009 11 is not approved by the IMO the proposed new clause 4.11.1.(c)(iv) will become clause 4.11.1(c)(iii).

4.15.1. If the information provided under clauses 4.14 and 4.28C indicates that no Certified Reserve Capacity is to be made available in the Reserve Capacity Auction for a Reserve Capacity Cycle, or, based on the information received under clause 4.14, the IMO considers that the Reserve Capacity Requirement for the Reserve Capacity Cycle will be met without an auction, then, by the date and time specified in clause 4.1.16, the IMO must publish a notice specifying for that Reserve Capacity Cycle:

- (a) that the Reserve Capacity Auction has been cancelled;
- (b) the Reserve Capacity Requirement;
- (c) the total amount of Certified Reserve Capacity;
- (cA) the Capacity Credits assigned under clause 4.28C;
- (d) the total amount of Certified Reserve Capacity that would have been made available in the Reserve Capacity Auction had one been held; and
- (e) the total amount of Certified Reserve Capacity covered by pre-existing Special Price Arrangements;

4.28C. Early Certification of Reserve Capacity

4.28C.8. Within 30 Business Days of the applicant receiving notification by the IMO of the amount of Early Certified Reserve Capacity assigned to the Facility the applicant must provided Reserve Capacity Security equal to the amount

specified in clause 4.28C.9., else the Early Certified Reserve Capacity assigned to the Facility will lapse.

4.28C.10. The IMO must set the Capacity Credits for the Facility to equal the Early Certified Reserve Capacity of the Facility once the Reserve Capacity Security is provided to the IMO under clause 4.28C.8.

4.28C.12. The Reserve Capacity Security provided by the Market Participant under clause 4.28C.4 (b) must, by the time and date in clause 4.1.13 (a), in year 1 of the first Reserve Capacity Cycle in which the Facility will commence operation be recalculated in accordance with 4.28C.9, and the difference paid to the IMO or refunded to the Market Participant as applicable,

Appendix 3: Reserve Capacity Auction & Trade Methodology

...

- o For the testing of bilateral trades, for Availability Class $a = 1$ this is the greater of zero and $Q[a] - X[a]$ while for Availability Classes $a = 2, 3$ or 4 , this is the greater of zero and $(Q[a] - X[a] - Y[a-1])$ where

$Q[a]$ is the quantity associated with Availability Class “a” in clause 4.5.12(c).

$X[a]$ is the total quantity of:

- i Certified Reserve Capacity to be provided by Facilities subject to Network Control Service Contracts and by Facilities under Long Term Special Price Arrangements during the period to which the Reserve Capacity Requirement applies; plus
- ii the amount of Capacity Credits assigned under clause 4.28C for the period to which the Reserve Capacity Requirement applies

where the capacity is certified as belonging to Availability Class “a” and is not subject to a bilateral trade.

$Y[a]$ represents the amount by which $(X[a] + Y[a-1])$ exceeds $Q[a]$, with the exception that $Y[0] = 0$.

...

5. THE IMO'S ASSESSMENT

In preparing its Draft Rule Change Report, the IMO must assess the Rule Change Proposal in light of clauses 2.4.2 and 2.4.3 of the Market Rules.

Market Rule 2.4.2 outlines that 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*”.

Additionally, clause 2.4.3 states, when deciding whether to make Amending Rules, the IMO must have regard to the following:

- Any applicable policy direction from the Minister regarding the development of the market;
- The practicality and cost of implementing the proposal;
- The views expressed in submissions and by the MAC; and
- Any technical studies that the IMO considers necessary to assist in assessing the Rule Change Proposal.

The IMO notes that there has not been any applicable policy direction from the Minister in respect of this Rule Change Proposal.

The IMO’s assessment is outlined in the following sections.

5.1 Wholesale Market Objectives

The IMO considers that the Market Rules as a whole, if amended, will be consistent with the Wholesale Market Objectives.

Wholesale Market Objective	Consistent with 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	Yes
(b) to encourage competition among generators and retailers in the South West interconnected system, including by facilitating efficient entry of new competitors	Yes
(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	Yes
(d) to minimise the long-term cost of electricity supplied to customers from the South West interconnected system	Yes
(e) to encourage the taking of measures to manage the amount of electricity used and when it is used	Yes

Further, the IMO considers that the Market Rules if amended would not only be consistent with the Wholesale Market Objectives but also allow the Market Rules to better address the Wholesale Market Objectives:

Impact	Wholesale Market Objectives
Allow the Market Rules to better address objective	a, b
Consistent with objective	c, d, e

The IMO’s 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;*

The proposed changes will support market objective (a) by facilitating the efficient entry of new competitors which will likely lead to a more economically efficient combination of generation investment as the proposed changes target generators with long lead times.

The IMO's assessment against market objective (b) is as follows:

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

The proposed changes will support market objective (b) by facilitating the entry of new generation Facilities with long lead times as it will add certainty to the income stream around Capacity Credits. It is expected that this will have a positive effect on the ability of a Market Participant to secure financing for a new generation.

The IMO considers that the proposed changes are consistent with the other market objectives.

5.2 Practicality and Cost of Implementation

The proposed changes will also require some changes to the Wholesale Electricity Market Systems operated by the IMO. The cost of these changes is currently being investigated by the IMO.

5.3 Views expressed in submissions

The proposed changes had mixed support during the first submission period. Of the four formal submissions received, Aviva, LGP and Griffin supported the proposal. The main supporting reason was that the Rule Change Proposal facilitates the financing of long lead time generation projects by removing an inherent discrimination in the Market Rules.

In its submission LGP did however question whether clause 4.28C.1 may not achieve the anticipated outcome as a Facility is unlikely to be committed prior to receipt of certification.

Alinta did not support the proposed changes. In particular, Alinta considers that the Rule Change Proposal lacks certain benefits, would introduce additional complexity into the Market Rules, and may result in less efficient market outcomes.

The IMO's response to the issues raised in Alinta and LGP's submissions is contained in section 4.2 of this Draft Rule Change Report. The IMO does not consider that any of the points raised provide sufficient evidence that the proposed changes will not have the anticipated effect.

5.4 Market Advisory Committee

The IMO first presented the ECRC concept to the MAC at the 10 December 2008 meeting. In particular, the concept paper (CP_2008_01) presented the merits of

extending the timeframe associated with building projects (currently 28 months) in order to provide additional security to project developers by removing Conditional Certification and replacing it with guaranteed CRC when a Facility meets the eligibility criteria.

All MAC members expressed support for extending the timeframe associated with building projects, which will allow for long lead time projects to secure Capacity Credits earlier. MAC members were also provided an opportunity to make an out of session submission on the concept to the IMO. The IMO received a submission from Alinta questioning whether the changes proposed would provide financiers with any greater certainty than already exists under the existing arrangements. The IMO also received informal feedback from discussions with new entrant generators suggesting that Conditional Certification is useful when acquiring project finance.

In response, the IMO decided to maintain the concept of Conditional Certification and, as previously proposed, seek to introduce the new concept of receiving ECRC to the Market Rules. The IMO presented these additional considerations to the MAC in an updated concept paper (CP_2009_01) for discussion at the 11 February 2009 meeting.

At the meeting it was noted that ECRC is “normal” CRC, except that it is to be approved earlier than current timeframes allow. This is still contingent on Facilities being committed. A member asked the IMO to consider whether it is unreasonably onerous to require a Facility to be “under construction” before it can apply for ECRC and also require it to file the security deposit before it is granted Capacity Credits. It was noted that this was to replicate the existing provisions for normal CRC and to provide an appropriate level of certainty, as granting Capacity Credits early represents a commitment on behalf of the market.

The MAC met to discuss the proposed rule change at the 29 April 2009 meeting. At the meeting the MAC noted the proposal which had been modelled upon CP_2009_01. As the concept paper had previously received support for its progression, it was considered not necessary to discuss the detailed contents of the Rule Change Proposal again.

The MAC agreed that the IMO progress the paper through the Rule Change Process.

6. THE IMO'S DRAFT DECISION

The IMO's draft decision is to accept the proposed amendments to clauses 4.1.1A, 4.5.2, 4.9.3, 4.11.1, 4.12.6, 4.15.1, 4.15.2, Chapter 11 Glossary and Appendix 3, and the addition of clauses 4.28C, 4.28C.1, 4.28C.2, 4.28C.3, 4.28C.4, 4.28C.5, 4.28C.6, 4.28C.7, 4.28C.8, 4.28C.9, 4.28C.10, 4.28C.11, 4.28C.12, 4.28C.13, 4.28C.14, 4.28C.15 of the Market Rules as proposed in the Rule Change Proposal and modified in section 4.4.

6.1 *Reasons for the decision*

The IMO has made its decision on the following basis:

- The Amending Rules:
 - Will allow the Market Rules to better address Wholesale Market Objectives (a), and (b);
 - Are consistent with the remaining Wholesale Market Objectives;
 - Have the support of the MAC; and

- Have the support of the majority of submissions during the first submission period.

Additional detail outlining the analysis behind the IMO's reasons is outlined in section 5 of this Draft Rule Change Report.

The wording of the relevant Amending Rules is presented in section 7 of this Report.

7. PROPOSED AMENDING RULES

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

The Reserve Capacity Cycle

4.1. The Reserve Capacity Cycle

4.1.1. This clause 4.1 sets out the timetable by which the key events described in this Chapter in respect of each Reserve Capacity Auction must occur. The events described below comprise a single Reserve Capacity Cycle, except where otherwise indicated. The Reserve Capacity Cycle will be repeated for each Reserve Capacity Auction.

4.1.1A. Clause 4.28B and 4.28C takes precedence over this clause 4.1 and events described in clause 4.28B and 4.28C are not required to comply with the timetable of this section 4.1 except where specified in clause 4.28B and 4.28C.

...

4.5.2. The Long Term PASA Study must take into account:

- (a) demand growth scenarios, including peak and annual energy requirements;
- (b) expected Demand Side Management capabilities and taking into account clause 4.28.10;
- (c) generation capacity expected to be available, including details ~~on~~ of any Early Certified Reserve Capacity, seasonal capacities, Ancillary Service capabilities, long duration outages and, for Non-Scheduled Generators, production profiles;
- (d) expected transmission network capabilities allowing for expansion plans, losses and constraints; and
- (e) the capacity described in clause 4.5.2A.

...

4.9.3. A Market Participant applying for certification of Reserve Capacity must provide to the IMO:

- (a) ~~must provide to the IMO the data specified in clause 4.10.1, in the format specified in the Reserve Capacity Procedure, the data specified in clause 4.10.1;~~

- (b) ~~in addition, must,~~ in the case of application for certification of Reserve Capacity for an Intermittent Generator that is yet to enter service, ~~provide to the IMO~~ the report described in clause 4.10.3; and
- (c) in the case of an application for conditional certification for a future Reserve Capacity Cycle, or subsequent applications for Early Certified Reserve Capacity for a Facility for the same Reserve Capacity Cycle, an Application Fee to cover the cost of processing the application.

...

4.11.1. Subject to clause 4.11.7, the IMO must apply the following principles in assigning a quantity of Certified Reserve Capacity to a Facility for the Reserve Capacity Cycle to which the application relates:

...

- (c) the IMO must not assign Certified Reserve Capacity to a Facility for a Reserve Capacity Cycle if:

...

iv. that Facility already has Capacity Credits assigned to it under Clause 4.28C for the Reserve Capacity Cycle.

The following proposed amendment to clause 4.11.1.(c).iv. is conditional on the outcome of the RC 2009 11 – Changing the Window of Entry into the Reserve Capacity Market. In the case that RC 2009 11 is not approved by the IMO the proposed new clause 4.11.1.(c)(iv) will become clause 4.11.1(c)(iii). .

4.12.6. Subject to clause 4.12.7, any initial Reserve Capacity Obligation Quantity set

...

4.12.6. Subject to clause 4.12.7, any initial Reserve Capacity Obligation Quantity set in accordance with clauses 4.12.4, 4.12.5, ~~or 4.28B.4,~~ or 4.28C.4 is to be reduced once the Reserve Capacity Obligations take effect, as follows:

...

4.15.1. If the information provided under clauses 4.14 and 4.28C indicates that no Certified Reserve Capacity is to be made available in the Reserve Capacity Auction for a Reserve Capacity Cycle, or, based on the information received under clause 4.14, the IMO considers that the Reserve Capacity Requirement for the Reserve Capacity Cycle will be met without an auction, then, by the date and time specified in clause 4.1.16, the IMO must publish a notice specifying for that Reserve Capacity Cycle:

- (a) that the Reserve Capacity Auction has been cancelled;
- (b) the Reserve Capacity Requirement;
- (c) the total amount of Certified Reserve Capacity;
- (cA) the Capacity Credits assigned under clause 4.28C;
- (d) the total amount of Certified Reserve Capacity that would have been made available in the Reserve Capacity Auction had one been held; and

- (e) the total amount of Certified Reserve Capacity covered by pre-existing Special Price Arrangements;

4.15.2. If the Reserve Capacity Auction for a Reserve Capacity Cycle is not cancelled in accordance with clause 4.15.1, then, by the date and time specified in clause 4.1.16, the IMO must publish a notice specifying:

(a) that the Reserve Capacity Auction will be held;

(b) the Reserve Capacity Auction Requirement, where this equals the ~~Reserve Capacity Requirement less the total amount of Certified Reserve Capacity~~ which:

- i. ~~the IMO has notified Market Participants can be traded bilaterally under clause 4.14.9; or~~ Reserve Capacity Requirement; less
- ii. the total amount of Certified Reserve Capacity which the IMO has notified Market Participants can be traded bilaterally under clause 4.14.9 or is covered by a pre-existing Special Price Arrangement; and less
- iii. the amount of Capacity Credits assigned under clause 4.28C for the relevant Reserve Capacity Cycle; and

(c) ...

4.28C. Early Certification of Reserve Capacity

4.28C.1. This section 4.28C is applicable to Registered Facilities to which the following conditions apply:

- (a) the Facility is a new Facility;
- (b) the Facility is a generating system; and
- (c) the Facility is deemed by the IMO to be committed.

4.28C.2. A Market Participant with a Registered Facility that meets the criteria in 4.28C.1 may apply to the IMO, at any time between the date when the Facility was registered under Chapter 2 and 1 January of Year 1 of the Capacity Cycle to which the application relates, for certification of Capacity and Capacity Credits for that Facility (“**Early Certified Reserve Capacity**”).

4.28C.3. Each application for Early Certified Reserve Capacity must relate to a single future Reserve Capacity Cycle. The IMO must not accept more than one application for certification of Reserve Capacity per Facility per calendar year.

4.28C.4. The application under clause 4.28C.2 must state that the applicant intends to trade all assigned Certified Reserve Capacity bilaterally.

4.28C.5. An application made under clause 4.28C.2 must include all the information required by clause 4.10 for the appropriate type of generation system for which the application pertains to.

- 4.28C.6. The IMO must process each application made in accordance with clause 4.28C.2 so as to determine the Early Certified Reserve Capacity, Capacity Credits and Reserve Capacity Obligations in connection with the Facility.
- 4.28C.7. The IMO must, within 90 days of the application, set Early Certified Reserve Capacity for the Facility to that amount it would normally grant the Facility if processing an application for Certified Reserve Capacity in accordance with clause 4.11.
- 4.28C.8. Within 30 Business Days of the applicant receiving notification by the IMO of the amount of Early Certified Reserve Capacity assigned to the Facility the applicant must provide Reserve Capacity Security equal to the amount specified in clause 4.28C.9., else the Early Certified Reserve Capacity assigned to the Facility will lapse.
- 4.28C.9. The amount for the purposes of clause 4.28C.8 and 4.28C.12 is twenty-five percent of the Maximum Reserve Capacity Price included in the most recent Request for Expressions of Interest at the time and date associated with either clause 4.28C.8 or 4.28C.12 as applicable, multiplied by an amount equal to the Early Certified Reserve Capacity assigned to the Facility.
- 4.28C.10. The IMO must set the Capacity Credits for the Facility to equal the Early Certified Reserve Capacity of the Facility once the Reserve Capacity Security is provided to the IMO under clause 4.28C.8.
- 4.28C.11. The IMO must set the Reserve Capacity Obligations, including the initial Reserve Capacity Obligation Quantity, for the Facility in accordance with clause 4.12 as if set as part of an application for Certified Reserve Capacity made in accordance with clause 4.11.
- 4.28C.12. The Reserve Capacity Security provided by the Market Participant under clause 4.28C.4 (b) must, by the time and date in clause 4.1.13 (a), in year 1 of the first Reserve Capacity Cycle in which the Facility will commence operation be recalculated in accordance with 4.28C.9, and the difference paid to the IMO or refunded to the Market Participant as applicable.
- 4.28C.13. If the IMO approves the granting of Capacity Credits to the Facility under this clause 4.28C then the Capacity Credits and the Reserve Capacity Obligations associated with that Facility will apply from the commencement of the Trading Day commencing on the start date until the end of the Trading Day ending on the end date where:
- (a) the start date is 1 October of year 3 of the capacity cycle the application relates to under clause 4.28C.2 ; and
 - (b) the end date is the earlier of:
 - i. the first instance of the date 1 October after the start date; and
 - ii. the decommissioning date of the Facility.
- 4.28C.14. Capacity Credits issued by the IMO under this clause 4.28C:
- (a) are not eligible to be used in a Reserve Capacity Auction; and

(b) are not eligible to have a Long Term Special Price Arrangements or Short Term Special Price Arrangements associated with them.

4.28C.15. The IMO must document the process for applying for and approving Capacity Credits in accordance with this clause 4.28C in the Reserve Capacity Procedure, and the IMO and Market Participants must follow that documented Market Procedure.

CHAPTER 11

Capacity Credit: A notional unit of Reserve Capacity provided by a Facility during a Capacity Year. The total number of Capacity Credits provided by a Facility is determined in accordance with clause 4.20, ~~or~~ clause 4.28B, ~~or~~ clause 4.28C. Each Capacity Credit is equivalent to 1MW of Reserve Capacity. The Capacity Credits to be provided by a Facility are held by the Market Participant registered in respect of that Facility. The number of Capacity Credits to be provided by a Facility may be reduced in certain circumstances under the Market Rules, including under clause 4.25.4 or adjusted under clause 4.25.6.

Early Certified Reserve Capacity: Reserve Capacity which is certified and assigned to a new Facility by the IMO for a future Reserve Capacity Cycle under clause 4.28C.

Reserve Capacity Obligations: For a Market Participant holding Capacity Credits, determined in accordance with clause 4.12.1, ~~or~~ clause 4.28B ~~or~~ clause 4.28C.

Reserve Capacity Obligation Quantity: The specific amount of capacity required to be provided in a Trading Interval as part of a Reserve Capacity Obligation set by the IMO in accordance with clauses 4.12.4 and 4.12.5 or clauses 4.28B or 4.28C as adjusted from time to time in accordance with these Market Rules, including under clause 4.12.6.

Appendix 3: Reserve Capacity Auction & Trade Methodology

...

- o For the testing of bilateral trades, for Availability Class $a = 1$ this is the greater of zero and $Q[a] - X[a]$ while for Availability Classes $a = 2, 3$ or 4 , this is the greater of zero and $(Q[a] - X[a] - Y[a-1])$ where

$Q[a]$ is the quantity associated with Availability Class “a” in clause 4.5.12(c).

$X[a]$ is the total quantity of:

- i Certified Reserve Capacity to be provided by Facilities subject to Network Control Service Contracts and by Facilities under Long Term Special Price Arrangements during the period to which the Reserve Capacity Requirement applies; plus
- ii the amount of Capacity Credits assigned under clause 4.28C for the period to which the Reserve Capacity Requirement applies

where the capacity is certified as belonging to Availability Class “a” and is not subject to a bilateral trade.

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$Y[a]$ represents the amount by which $(X[a] + Y[a-1])$ exceeds $Q[a]$, with the exception that $Y[0] = 0$.

...