

**ADDENDUM TO DRAFT RULE CHANGE REPORT:
RC_2009_35: Energy Price Limits Methodology and Consultation Process**

BACKGROUND

RC_2009_35 proposes to amend the Market Rules to:

- Replace “Profit Margin” with “Risk Margin”. This is to allow for the uncertainty faced by the IMO in setting the price limits to be accurately reflected when annually reviewing its appropriateness (clause 6.20.7);
- Clarify that the IMO will publish draft reports and seek public consultation only when undertaking the annual review required under clause 6.20.6 (clause 6.20.9); and
- Allow for a second consultation period, if required, after submissions have been received on the draft report (new clause 6.20.9A and 6.20.10).

Full details of the proposed amendments are provided in the Rule Change Proposal available on the following webpage: www.imowa.com.au/RC_2009_35

FURTHER PROPOSED UPDATES FOR RULE CHANGE PROPOSAL TO REMOVE CLAUSE 6.20.2

The IMO has identified a duplication process associated with the calculation of the Maximum STEM Price:

- Clause 6.20.2: requires the IMO to complete a CPI based adjustment of the past year’s Maximum STEM Price to apply from 1 October of each relevant year.
- Clause 6.20.6: requires the IMO to annually review the appropriateness of the values of the Energy Price Limits (which includes the Maximum STEM Price) and may propose a revised value. The Market Rules do not specifically define a completion date for the annual review.

Once the annual review process (under clause 6.20.6) has been completed the value is approved by the Economic Regulation Authority (ERA). Following this approval the previous Energy Price Limit is revised. The applicable date for commencement of the revised value following from the annual review in previous years has been:

- 1 November 2007;
- 1 October 2008; and
- 1 October 2009.

Therefore the commencement date for the revised values resulting from the past two annual reviews has coincided with the applicable date for the commencement of the CPI adjusted value (1 October). This means that the annual review has simply superseded the CPI adjusted value immediately.

The IMO considers that there is a duplication of review/adjustment processes. Therefore the IMO proposes to remove the requirement to adjust the Maximum STEM Price for CPI changes contained in clause 6.20.2. The IMO does not propose to remove the obligation to review the Alternative Maximum STEM Price monthly (clause 6.20.3).

The proposed removal of clause 6.20.2 is consistent with the process associated with undertaking the annual review of the Maximum Reserve Capacity Price.

The IMO proposed revised drafting is as follows (~~deleted text~~, added text):

~~6.20.2. Subject to clause 6.20.11, the Maximum STEM Price to apply for:~~

- ~~(a) the Relevant Year commencing on 1 October 2004 is equal to \$150/MWh.; and~~
- ~~(b) for subsequent Relevant Years is the Maximum STEM Price for the preceding Relevant Year multiplied by $\frac{CPI[x]}{CPI[x-1]}$, where $CPI[x]$ represents the weighted average of the Consumer Price Index All Groups values for the eight Australian State and Territory capital cities as determined by the Australian Bureau of Statistics for the quarter ending June 30 immediately preceding the start of the Relevant Year and $CPI[x-1]$ represents the corresponding value for the quarter ending the preceding June 30;~~

~~with the exception that from the date and time that a revised Maximum STEM Price takes effect in accordance with clause 6.20.11, that revised value supersedes the current value and is to be the value used as the Maximum STEM Price for the remainder of the Relevant Year in which it takes effect and will be deemed to have applied for the whole of the preceding calendar year when applying paragraph (b) in respect of the following Relevant Year.~~

The IMO acknowledges that, because this addendum is not contained in the Draft Rule Change Report, this addendum has no formal standing. However, the IMO invites Rule Participants to make submissions on the Draft Rule Change Report as previously notified. If considered appropriate the IMO invites Rule Participants to specifically submit on the information contained in this addendum during the second consultation period.

As previously notified, the submission period submissions must be delivered to the IMO by 5.00pm on **Wednesday 7 April 2010**.

TROY FORWARD
MANAGER MARKET DEVELOPMENT AND SYSTEM CAPACITY