

The background of the lower half of the page is a photograph of a wind farm and power lines, overlaid with a semi-transparent blue filter. On the left, several white wind turbines are visible, with their blades extending outwards. On the right, a tall, lattice-structured power transmission tower stands prominently. The overall scene is set against a clear sky and a hilly landscape.

Independent Market Operator

**Final Market Rule Change
Report**

**Title: Updates to Reserve
Capacity Obligation
Provisions**

Ref: RC_2010_16

Date: 29 July 2010

Contents

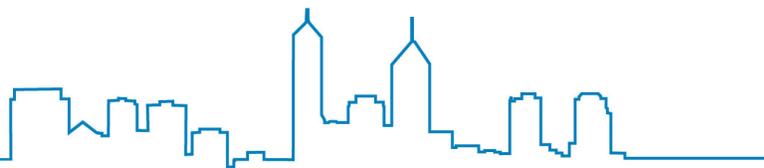
1.	INTRODUCTION	3
2.	THE RULE CHANGE PROPOSAL	4
2.1	Submission Details	4
2.2	Details of the Proposal.....	4
2.3	The Proposal and the Wholesale Market Objectives	4
2.4	The Amending Rules Proposed by the IMO	4
2.5	The IMO's Initial Assessment of the Proposal.....	4
3.	CONSULTATION	5
3.1	Submissions received.....	5
3.2	Additional Amendments to the Amending Rules	6
4.	THE IMO'S ASSESSMENT.....	6
4.1	Wholesale Market Objectives	7
4.2	Practicality and cost of implementation	7
4.3	Views expressed in submissions.....	8
4.4	Views of the Market Advisory Committee.....	8
5.	THE IMO'S FINAL DECISION.....	8
5.1	Reasons for the decision	8
6.	AMENDING RULES	8
6.1	Commencement	8
6.2	Amending Rules	8
	APPENDIX 1: THE IMO'S RULE CHANGE PROPOSAL.....	12
	APPENDIX 2: PROPOSED AMENDING RULES IN RULE CHANGE PROPOSAL	15

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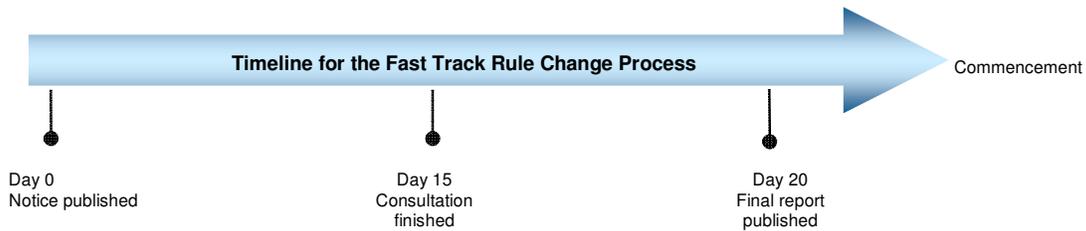


1. INTRODUCTION

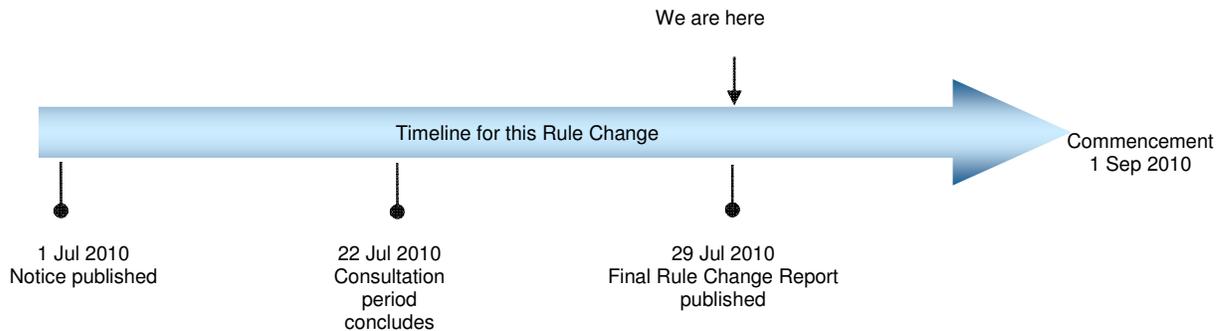
On 30 June 2010 the Independent Market Operator (IMO) submitted a Rule Change Proposal regarding amendments to clauses 4.1.26 and 4.26.1A of the Wholesale Electricity Market Rules (Market Rules).

This Proposal was processed using the Fast Track Rule Change Process, described in section 2.6 of the Market Rules.

The fast track process adheres to the following timelines:



The key dates in processing this Rule Change Proposal are:



The IMO's final decision is to implement the Rule Change Proposal in a modified form, outlined in section 6.2 of this report. The decision is based on the IMO's assessment of the Rule Change Proposal against the:

- Wholesale Market Objectives;
- practicality and cost of implementing the proposal; and
- outcomes from the public consultation period.

All documents related to this Rule Change Proposal can be found on the IMO website:
http://www.imowa.com.au/RC_2010_16

2. THE RULE CHANGE PROPOSAL

2.1 Submission Details

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Organisation:	Independent Market Operator
Address:	Level 3, Governor Stirling Tower, 197 St Georges Terrace, Perth
Date submitted:	30 June 2010
Urgency:	High
Change Proposal title:	Updates to Reserve Capacity Obligation Provisions
Market Rules affected:	4.1.26 and 4.26.1A

2.2 Details of the Proposal

The IMO's Rule Change Proposal sought to clarify when Reserve Capacity Obligations apply for late commissioning facilities¹. This is with regard to the changed window of entry into the Reserve Capacity Mechanism applying from the 2010 Capacity Year onwards².

The full details of the IMO's proposal, as outlined in the Rule Change Notice, are presented in Appendix 1.

2.3 The Proposal and the Wholesale Market Objectives

The IMO considered that the proposed changes, which correct a manifest error in the current Market Rules, are consistent with the Wholesale Market Objectives.

2.4 The Amending Rules Proposed by the IMO

The amendments to the Market Rules proposed by the IMO are provided in Appendix 2 of this report.

2.5 The IMO's Initial Assessment of the Proposal

The IMO decided to process the Rule Change Proposal using the Fast Track Rule Change Process on the basis that it satisfies the criteria in clauses 2.5.9(a) and 2.5.9(b) of the Market Rules. Clause 2.5.9 states:

The IMO may subject a Rule Change Proposal to the Fast Track Rule Change Process if, in its opinion, the Rule Change Proposal:

- (a) *is of a minor or procedural nature; or*

¹ See RC_2009_08: Update to Commissioning Provisions.

² See RC_2009_11: Changing the Window of Entry.

- (b) *is required to correct a manifest error; or*
- (c) *is urgently required and is essential for the safe, effective and reliable operation of the market or the SWIS.*

The IMO considered that the proposed changes will correct a manifest error which for Reserve Capacity Cycles up to and including 2009 will result in a Forced Outage refund being calculated for facilities from 1 October, despite their capacity obligations not commencing until 30 November. The IMO considered that this was an oversight which required correction to ensure consistency with the original intent of both RC_2009_08 and RC_2009_11.

The proposal also included a minor correction to amend the drafting of clause 4.1.26, to clarify the dates by which Reserve Capacity Obligations apply for new generating systems undertaking late Commissioning Tests during Reserve Capacity Cycles up to and including 2009. The IMO considered that it does not seek to amend the operation of the Market Rules and is consistent with the intent of RC_2009_11.

As such the IMO considered that the proposal fulfilled both sub-clause 2.5.9(a) and 2.5.9(b) and therefore was fast-tracked.

3. CONSULTATION

An invitation for all Rule Participants to contact the IMO, should they wish to be consulted on this Rule Change Proposal, was published on the IMO website on 1 July 2010, together with the Rule Change Notice.

The consultation period for this Rule Change Proposal was between 1 July 2010 and 22 July 2010. Interested stakeholders were requested to inform the IMO if they wished to be consulted on this Rule Change Proposal by 8 July 2010.

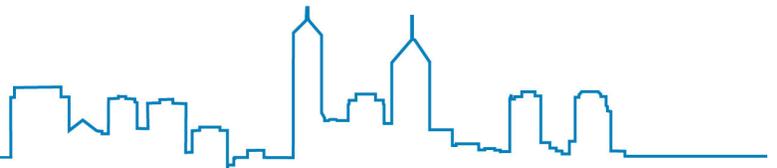
3.1 Submissions received

During the consultation period the IMO received a formal request for consultation from Perth Energy on the proposed amendments. Subsequently Perth Energy provided a written submission. Out of session submissions were also received from both LGP and Synergy. The main points raised in the submissions are summarised below. The full text of all submissions is available on the IMO website.

All of the submissions received (both in session and out of session) supported the Rule Change Proposal.

In its submission Perth Energy queries the reference of 30 November in the drafting of clauses 4.1.26 and 4.26.1A and suggests that 1 December should be used instead. Perth Energy also notes its intention to put forward a future Rule Change Proposal to amend the date for commissioning of new plants from 1 October to 1 December of any given Reserve Capacity Cycle.

Perth Energy considers that the proposal will marginally better facilitate market objective (a) as it would ensure no confusion exists as to the rights and obligations of Facilities that entered the



market before the 2010 Reserve Capacity Cycle as opposed to the rights and obligations of those Facilities that enter the market from the 2010 Reserve Capacity Cycle onwards.

The IMO's response to issues raised in Perth Energy's submission

The IMO notes that the reference to 30 November in the proposed amended drafting is consistent with the specification that Reserve Capacity Obligations take effect for Facilities from their commissioning date, which must be between 1 August and 30 November of Year 3. Therefore as 30 November is the last possible Trading Day under which commissioning can take place (for Reserve capacity Cycles up to and including 2009) then it is appropriate that Reserve Capacity Obligations apply from this date.

The IMO notes Perth Energy's intention to put forward a future Rule Change Proposal around the date for commissioning of new plants.

3.2 Additional Amendments to the Amending Rules

During the public consultation period the IMO also identified that clause 3.21A.7A had not been deleted in the Amending Rules presented in the Final Rule Change Report for RC_2009_08. As a consequence System Management is still precluded from approving a Commissioning Test for a new generator if that test is to occur after 30 November of the year in which the new capacity obligations take effect³. Both the Rule Change Proposal and the Draft Rule Change Report purported to remove this clause to allow System Management to approve late commissioning tests. To correct this manifest error the IMO proposed that following additional amendment (~~deleted text~~, added text):

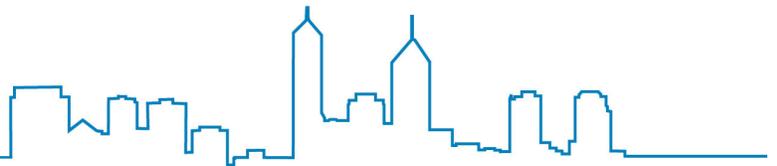
3.21A.7A. ~~System Management may not accept a request for a Commissioning Test, for Facilities that are yet to commence operation, if the information provided in accordance with clause 3.21A.4(b) includes Trading Intervals after the commencement of the Trading Day commencing on the date specified in accordance with clause 4.10.1(c)(iii)(7), or as revised in accordance with clause 4.27.11A or clause 4.27.11D. [Blank]~~

4. THE IMO'S ASSESSMENT

In preparing this Final 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.

Clause 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".

³ Note that 30 November is the date relevant to Reserve Capacity Cycles up to and including 2009. If the concept of late commissioning had not been included in the Market Rules, and this clause proposed to be removed, this would have required amendment to 1 October for Reserve Capacity Cycles from 2010 onwards.



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, nor any technical studies commissioned in respect of this Rule Change Proposal.

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

4.1 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

4.2 Practicality and cost of implementation

Cost: The IMO has not identified any additional costs for settlement system changes to implement the propose changes other than those already incurred for RC_2009_11 and RC_2009_08.

Practicality: The IMO has not identified any issues with the practicality of implementing the proposed changes.



4.3 Views expressed in submissions

Perth Energy's submission and the out-of-session submissions from LGP and Synergy all supported the Rule Change Proposal.

4.4 Views of the Market Advisory Committee

The MAC did not meet to discuss this Rule Change Proposal.

5. THE IMO'S FINAL DECISION

The IMO's final decision is to implement the amendments to clause 3.21A.7A, 4.1.26 and 4.26.1A of the Market Rules as proposed in the Rule Change Proposal and amended following the consultation period.

5.1 Reasons for the decision

The IMO has made its decision on the basis that the Amending Rules:

- are consistent with the Wholesale Market Objectives;
- will correct a manifest error and improve the integrity of the Market Rules;
- have the support of those Market Participants formally consulted during the consultation period; and
- can be easily implemented at no additional cost to the Market.

Additional detail outlining the analysis behind the IMO's reasons is outlined in section 4 of this Final Rule Change Report.

6. AMENDING RULES

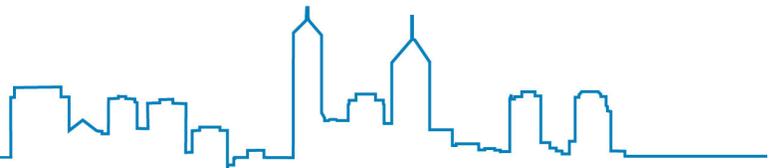
6.1 Commencement

The amendments to the Market Rules resulting from this Rule Change Proposal will commence at **8:00am** on **1 September 2010**.

6.2 Amending Rules

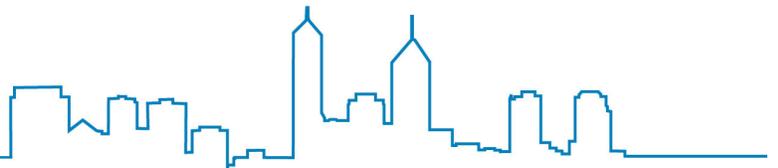
The following clauses are amended (~~deleted wording~~, new wording):

3.21A.7A. ~~System Management may not accept a request for a Commissioning Test, for Facilities that are yet to commence operation, if the information provided in accordance with clause 3.21A.4(b) includes Trading Intervals after the commencement of the Trading Day commencing on the date specified in accordance with clause 4.10.1(c)(iii)(7), or as revised in accordance with clause 4.27.11A or clause 4.27.11D. [Blank]~~



4.1.26. Reserve Capacity Obligations apply:

- (a) in the case of the first Reserve Capacity Cycle:
 - i. from the Initial Time, for Facilities that were commissioned before Energy Market Commencement;
 - ii. from the Trading Day commencing on the scheduled date of commissioning, as specified in accordance with clause 4.10.1(c)(iii)(7), for Scheduled Generators and Non-Scheduled Generators commissioned between Energy Market Commencement and 30 November 2007, inclusive; and
 - iii. from the Trading Day commencing on 1 October 2007 for Interruptible Loads, Curtailable Loads or Dispatchable Loads commissioned after Energy Market Commencement; and
- (b) for subsequent Reserve Capacity Cycles up to and including 2009:
 - i. from the Trading Day commencing on 1 October of Year 3, for Facilities that were commissioned as at the scheduled time of the Reserve Capacity Auction for the Reserve Capacity Cycle as specified in clause 4.1.18(a) or for Facilities which have provided Capacity Credits in one or both of the two previous Reserve Capacity Cycles; ~~and~~
 - ii. from the Trading Day commencing on the scheduled date of commissioning, as specified in accordance with clause 4.10.1(c)(iii)(7), or as revised in accordance with clause 4.27.11A or clause 4.27.11D, for Facilities commissioned between 1 August of Year 3 and 30 November of Year 3; and
 - iii. from the Trading Day commencing on 30 November of Year 3, for new generating systems undertaking Commissioning Tests after 30 November of Year 3; and
- (c) for subsequent Reserve Capacity Cycles from 2010 onwards:
 - i. from the Trading Day commencing on 1 October of Year 3, for Facilities that were commissioned as at the scheduled time of the Reserve Capacity Auction for the Reserve Capacity Cycle as specified in clause 4.1.18(a) or for Facilities which have provided Capacity Credits in one or both of the two previous Reserve Capacity Cycles;
 - ii. from the Trading Day commencing on the scheduled date of commissioning, as specified in accordance with clause 4.10.1(c)(iii)(7),



or as revised in accordance with clause 4.27.11A or clause 4.27.11D, for Facilities commissioned between 1 June of Year 3 and 1 October of Year 3; and

- iii. from the Trading Day commencing on 1 October of Year 3, for new generating systems undertaking Commissioning Tests after 1 October of Year 3.

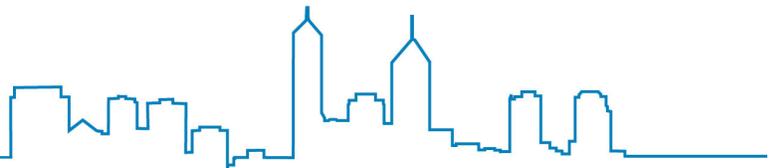
4.26.1A. The IMO must calculate the Forced Outage refund for each Facility (“**Facility Forced Outage Refund**”) as the lesser of:

(a) the sum over all Trading Intervals t in Trading Month m of the product of:

- i. the Off-Peak Trading Interval Rate or Peak Trading Interval Rate determined in accordance with the Refund Table applicable to Trading Interval t ; and
- ii the Forced Outage Shortfall in Trading Interval t ,

where the Forced Outage Shortfall for a Facility is equal to which ever of the following applies:

- iii if the Facility is required to have submitted a Forced Outage under clause 3.21.4, the Forced Outage in that Trading Interval measured in MW; or
- iv. if the Facility is an Intermittent Facility which is deemed to have not been commissioned, for the purposes of clause 4.26.1, the number of Capacity Credits associated with the relevant Intermittent Facility; or
- v. if, from the Trading Day commencing on 30 November of Year 3 for Reserve Capacity Cycles up to and including 2009 or 1 October of Year 3 for Reserve Capacity Cycles from 2010 onwards, the Facility is undergoing an approved Commissioning Test and, for the purposes of permission sought under clause 3.21A.2, is a new generating system, the number of Capacity Credits associated with the relevant Facility; or
- vi. if, from the Trading Day commencing on 30 November of Year 3 for Reserve Capacity Cycles up to and including 2009 or 1 October of Year 3 for Reserve Capacity Cycles from 2010 onwards, the Facility is not yet undergoing an approved Commissioning Test and, for the purposes of permission sought under clause 3.21A.2, is a new



generating system, the number of Capacity Credits associated with the relevant Facility; and

- (b) the total value of the Capacity Credit payments associated with the relevant Facility paid or to be paid under these Market Rules to the relevant Market Participant for the 12 Trading Months commencing at the start of the Trading Day of the most recent 1 October, assuming the IMO acquires all of the Capacity Credits associated with that Facility and the cost of each Capacity Credit so acquired is determined in accordance with clause 4.28.2(b), (c) and (d) (as applicable), less all Facility Forced Outage Refunds applicable to the Facility in previous Trading Months falling in the same Capacity Year.

APPENDIX 1: THE IMO'S RULE CHANGE PROPOSAL

Background

In its Rule Change Proposal, the IMO noted that it had recently implemented a number of amendments to the Market Rules relating to the entry of new participants into the South West interconnected system (SWIS):

- Changing the Window of Entry into the Reserve Capacity Mechanism (RC_2009_11); and
- Updates to Commissioning Provisions (RC_2009_08).

Further details of the specific amendments which resulted from these Rule Change Proposals are provided below.

Changing the Window of Entry into the Reserve Capacity Mechanism (RC 2009 11)

This Rule Change Proposal, which commenced 1 December 2009, shifted the four month window in which new capacity can enter the Reserve Capacity Mechanism after commissioning. This shift was from 1 August – 30 November to 1 June – 1 October of the relevant Capacity Year for the 2010 Reserve Capacity Cycle onwards.

Clause 4.1.26 of the Market Rules was amended to state that for Reserve Capacity Cycles from 2010 onwards Market Participants' Reserve Capacity Obligations would apply from the Trading Day commencing:

- 1 October of Year 3, for Facilities that were previously commissioned; or
- from the Trading Day commencing on the scheduled date of commissioning, for Facilities commissioned between 1 June and 1 October of Year 3.

This amendment to the window of entry for facilities undertaking commissioning is represented diagrammatically below:

Reserve Capacity Market Obligations for new generating systems

Reserve Capacity Cycles up to and including 2009:



2010 Reserve Capacity Cycle onwards:



Further details regarding RC_2009_11 are available on the IMO's webpage: http://www.imowa.com.au/RC_2009_11

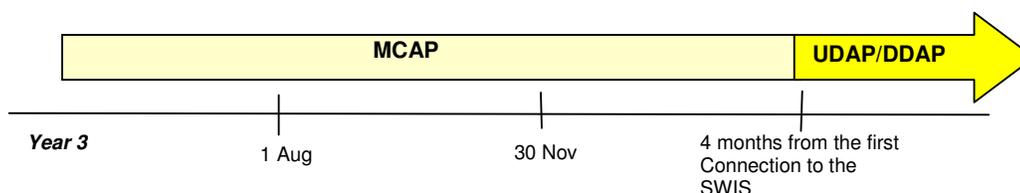
Updates to Commissioning Provisions (RC 2009 08)

This Rule Change Proposal, which commenced 1 June 2010, introduced the concept of allowing for late commissioning in the Market Rules. In particular, new generators can now conduct Commissioning Tests post 30 November (for the 2010 Capacity Year onwards) for a period of up to four months from first connection to the SWIS without:

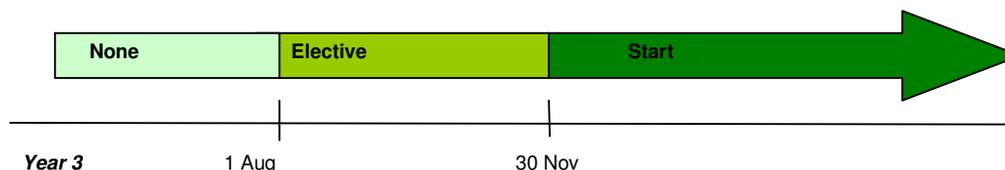
- needing to operate in the energy market;
- submitting Resource Plans; or
- being subject to UDAP and DDAP payments.

The proposal also separated the treatment of the Reserve Capacity Market and the energy market for new entrants as follows (for the 2010 Capacity Year onwards):

Energy Market Payments

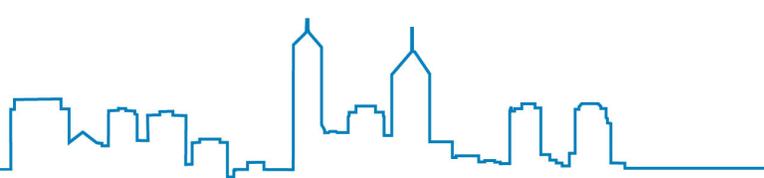


Reserve Capacity Market Obligations



Clause 4.1.26 of the Market Rules specifies when Reserve Capacity Obligations apply for generating systems. In order to accommodate the shift in the window of entry (which commenced 1 December 2009) this Rule Change Proposal amended this clause to introduce the concept of late commissioning after 1 October in Year 3 of the Reserve Capacity Cycle for the 2010 Reserve Capacity Cycle onwards. Likewise clause 4.26.1A, which relates to the calculation of Forced Outage refunds, was amended to make the Forced Outage Shortfall 100 percent of the Capacity Credits assigned to the relevant new generating system in the case where it:

- will still be undertaking an approved Commissioning Test after 1 October (that is they have already begun commissioning); and



- has yet to have commenced operation and will have a Commissioning Test Period after 1 October (that is it will be late commissioning).

Further details regarding RC_2009_08 are available on the IMO's webpage: http://www.imowa.com.au/RC_2009_08

Issue with clause 4.1.26

The IMO noted that under the current drafting of clause 4.1.26 it is unclear when the Reserve Capacity Obligations apply for new generating systems for Reserve Capacity Cycles up to and including 2009. That is for late commissioning generators entering the market during the 2010 – 2011 Capacity Years (Year 3 of the 2008 and 2009 Reserve Capacity Cycles), it is not clear that their Reserve Capacity Obligations will apply from 30 November of Year 3.

Issue with clause 4.26.1A

The IMO noted that the current methodology for calculating the Forced Outage refund for each facility does not distinguish between when Reserve Capacity Obligations apply for Reserve Capacity Cycles up to and including 2009 (30 November) and from 2010 onwards (1 October). Consequently generating systems entering the market during the 2010 and 2011 Capacity Years will have Forced Outage refunds calculated for each facility from 1 October onwards despite their Reserve Capacity Obligations not applying until 30 November of Year 3.

Proposal

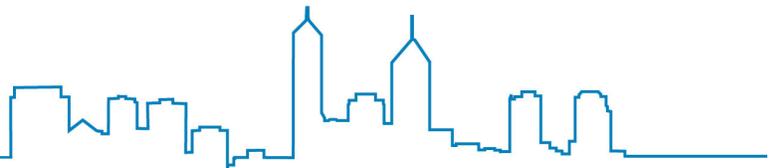
The IMO's Rule Change Proposal sought to clarify when Reserve Capacity Obligations apply for late commissioning facilities with regard to the changed window of entry into the Reserve Capacity Mechanism from the 2010 Capacity Year onwards. To correct these identified issues, the IMO proposed to amend the drafting as follows:

- Clause 4.1.26 – to specify that for Reserve Capacity Cycles up to and including 2009, Reserve Capacity Obligations will apply from 30 November of Year 3 for new generating systems undertaking late Commissioning Tests; and
- Clause 4.26.1A – to specify that a Forced Outage refund will be calculated for generating systems either currently undergoing approved Commissioning Tests or which will be undertaking late Commissioning Tests from:
 - 30 November of Year 3 for Reserve Capacity Cycles up to an including 2009; and
 - 1 October of Year 3 for Reserve Capacity Cycles from 2010 onwards.

APPENDIX 2: PROPOSED AMENDING RULES IN RULE CHANGE PROPOSAL

4.1.26. Reserve Capacity Obligations apply:

- (a) in the case of the first Reserve Capacity Cycle:
 - i. from the Initial Time, for Facilities that were commissioned before Energy Market Commencement;
 - ii. from the Trading Day commencing on the scheduled date of commissioning, as specified in accordance with clause 4.10.1(c)(iii)(7), for Scheduled Generators and Non-Scheduled Generators commissioned between Energy Market Commencement and 30 November 2007, inclusive; and
 - iii. from the Trading Day commencing on 1 October 2007 for Interruptible Loads, Curtailable Loads or Dispatchable Loads commissioned after Energy Market Commencement; and
- (b) for subsequent Reserve Capacity Cycles up to and including 2009:
 - i. from the Trading Day commencing on 1 October of Year 3, for Facilities that were commissioned as at the scheduled time of the Reserve Capacity Auction for the Reserve Capacity Cycle as specified in clause 4.1.18(a) or for Facilities which have provided Capacity Credits in one or both of the two previous Reserve Capacity Cycles; ~~and~~
 - ii. from the Trading Day commencing on the scheduled date of commissioning, as specified in accordance with clause 4.10.1(c)(iii)(7), or as revised in accordance with clause 4.27.11A or clause 4.27.11D, for Facilities commissioned between 1 August of Year 3 and 30 November of Year 3; and
 - iii. from the Trading Day commencing on 30 November of Year 3, for new generating systems undertaking Commissioning Tests after 30 November of Year 3; and
- (c) for subsequent Reserve Capacity Cycles from 2010 onwards:
 - i. from the Trading Day commencing on 1 October of Year 3, for Facilities that were commissioned as at the scheduled time of the Reserve Capacity Auction for the Reserve Capacity Cycle as specified in clause 4.1.18(a) or for Facilities which have provided Capacity Credits in one or both of the two previous Reserve Capacity Cycles;
 - ii. from the Trading Day commencing on the scheduled date of commissioning, as specified in accordance with clause 4.10.1(c)(iii)(7),



or as revised in accordance with clause 4.27.11A or clause 4.27.11D, for Facilities commissioned between 1 June of Year 3 and 1 October of Year 3; and

- iii. from the Trading Day commencing on 1 October of Year 3, for new generating systems undertaking Commissioning Tests after 1 October of Year 3.

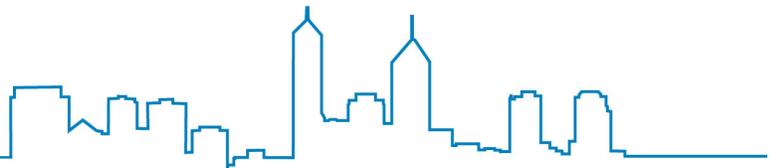
4.26.1A. The IMO must calculate the Forced Outage refund for each Facility (“**Facility Forced Outage Refund**”) as the lesser of:

(a) the sum over all Trading Intervals t in Trading Month m of the product of:

- i. the Off-Peak Trading Interval Rate or Peak Trading Interval Rate determined in accordance with the Refund Table applicable to Trading Interval t ; and
- ii the Forced Outage Shortfall in Trading Interval t ,

where the Forced Outage Shortfall for a Facility is equal to which ever of the following applies:

- iii if the Facility is required to have submitted a Forced Outage under clause 3.21.4, the Forced Outage in that Trading Interval measured in MW; or
- iv. if the Facility is an Intermittent Facility which is deemed to have not been commissioned, for the purposes of clause 4.26.1, the number of Capacity Credits associated with the relevant Intermittent Facility; or
- v. if, from the Trading Day commencing on 30 November of Year 3 for Reserve Capacity Cycles up to and including 2009 or 1 October of Year 3 for Reserve Capacity Cycles from 2010 onwards, the Facility is undergoing an approved Commissioning Test and, for the purposes of permission sought under clause 3.21A.2, is a new generating system, the number of Capacity Credits associated with the relevant Facility; or
- vi. if, from the Trading Day commencing on 30 November of Year 3 for Reserve Capacity Cycles up to and including 2009 or 1 October of Year 3 for Reserve Capacity Cycles from 2010 onwards, the Facility is not yet undergoing an approved Commissioning Test and, for the purposes of permission sought under clause 3.21A.2, is a new



generating system, the number of Capacity Credits associated with the relevant Facility; and

- (b) the total value of the Capacity Credit payments associated with the relevant Facility paid or to be paid under these Market Rules to the relevant Market Participant for the 12 Trading Months commencing at the start of the Trading Day of the most recent 1 October, assuming the IMO acquires all of the Capacity Credits associated with that Facility and the cost of each Capacity Credit so acquired is determined in accordance with clause 4.28.2(b), (c) and (d) (as applicable), less all Facility Forced Outage Refunds applicable to the Facility in previous Trading Months falling in the same Capacity Year.