



Independent Market Operator

**Rule Change Notice
Title: Capacity Credit
Cancellation**

Ref: RC_2010_28

Standard Rule Change Process

Date: 1 March 2011

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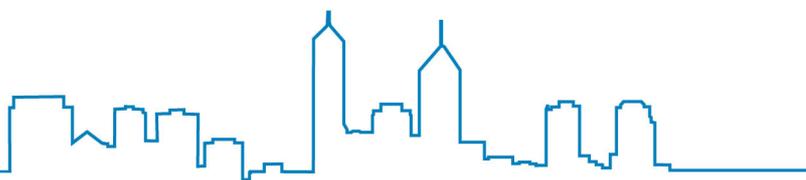
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DOCUMENT DETAILS

IMO Notice No.: RC_2010_28
Report Title: Rule Change Notice: Capacity Credit Cancellation
Release Status: Public
Confidentiality Status: Public domain
Published in accordance with Market Rule 2.5.7

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1. THE RULE CHANGE PROPOSAL

1.1. The Submission

On 1 March 2011 the Independent Market Operator (IMO) submitted a Rule Change Proposal regarding amendments to clauses 2.17.1, 4.12.6, 4.25.12, 4.27.10, 4.27.10A and new clauses 4.1.21A, 4.20.8, 4.20.9, 4.20.10, 4.20.11, 4.20.12, 4.20.13, 4.20.14 of the Wholesale Electricity Market Rules (Market Rules).

This Rule Change Notice is published in accordance with clause 2.5.7 of the Market Rules, which requires the IMO to publish a notice when it has developed a Rule Change Proposal.

1.1.1 Submission details

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Date submitted:	1 March 2011
Urgency:	High
Change Proposal title:	Capacity Credit Cancellation
Market Rules affected:	Clauses 2.17.1, 4.12.6, 4.25.12, 4.27.10, 4.27.10A and new clauses 4.1.21A, 4.20.8, 4.20.9, 4.20.10, 4.20.11, 4.20.12, 4.20.13, 4.20.14.

1.2. Details of the Proposal

Background

Over the past twelve months, the Wholesale Electricity Market (WEM) has experienced, for the first time, settlement in default as a result of failure of one Market Participant to pay invoices. The reason this event has occurred stems from within the Reserve Capacity Mechanism with the respective Market Participant being awarded Certified Reserve Capacity and Capacity Credits some years ago for the development, construction and commissioning of a new Facility. The Market Participant in question did not build its proposed Facility and consequently failed to provide Reserve Capacity to the WEM.

In this instance, the issues associated with this Facility were well known in advance by the IMO and there was no possibility of the capacity being delivered to the market within the Capacity Year.

Issue

The outworking of this situation resulted in all Market Participants being short-paid every month in the Non-STEM settlement process for the Capacity Year. These short-pay arrangements may

extend for up to three years while Capacity Credits have been awarded to the Market Participant. This is a burdensome process applied to all Market Participants, none of which have contributed to this issue in the first place.

Proposed Solution

The IMO proposes that under conditions such as these, in respect of a new Facility which is expected to be unable to deliver its entire capacity to the WEM for the entire Capacity Year, the IMO will be able to cancel the Capacity Credits associated with the Facility for that year.

Specifically, the IMO proposes the following process apply:

- Prior to the beginning of each Capacity Year, and where the IMO becomes aware that a Facility assigned Capacity Credits is unlikely to be able to make its capacity available to the WEM for an entire Capacity Year, (as identified from the either the progress reports provided by a Market Participant under either clause 4.27.10 or 4.27.10A or as a result of any additional information the IMO may have available to it), the IMO would be required to issue a notice to the Market Participant of its intention to cancel its Capacity Credits.
- The Market Participant would be provided a period in which it may respond to the IMO's notice of intention to cancel the Facility's Capacity Credits. Where the Market Participant disagrees with the IMO's intention it will be required to provide supporting evidence as to why the Facility's Capacity Credits should not be cancelled.
- The IMO would consider any supporting evidence provided by the Market Participant when making its final decision whether to cancel the Facility's Capacity Credits.
- If, in the IMO's reasonable expectation, it considers that the capacity will not be made available to the WEM, it may cancel the Capacity Credits assigned to the Facility for the period in question.
- The IMO would then be required to draw down on any Reserve Capacity Security held in respect of the Facility and distribute the security in accordance with existing arrangements specified in the Market Rules. The IMO notes that no amendments to the Market Rules are required to implement this. Currently under clause 4.13.11 a Market Participant is required to operate at a level equivalent to its Certified Reserve Capacity and not its Capacity Credits. In the situation where a Facility has had its Capacity Credits cancelled the test level would still be measured against the pre-cancellation level (refer to clause 4.12.6 for further details).¹

Any decision by the IMO to cancel the Capacity Credits for a Facility will apply for the whole Capacity Year. If in subsequent years the IMO also considers that the Facility will not be able to make its capacity available for the entire year it will undertake the above prescribed process

¹ The IMO notes that under RC_2010_12 the IMO has proposed a number of amendments to re-structure the clauses around Reserve Capacity Security. These will improve the integrity of the Market Rules. Any amendments resulting from RC_2010_12 will be taken into account when preparing the final drafting to implement the ability for the IMO to draw down of Reserve Capacity Security when a Facility has had its Capacity Credits reduced to zero.

again. This will provide Market Participants with an opportunity to respond to the IMO's notice of intention for subsequent Reserve Capacity Years in the case where it disagrees that the Facility will not be able to make its capacity available for the whole year. Market Participants will not be able to apply for a reassessment of the IMO's decision during the relevant Reserve Capacity Year. This is because allowing a Market Participant to request a reassessment and have its Capacity Credits reinstated during the Capacity Year would:

- create a distortion with the current capacity refund mechanism (as refunds would not always equate to the income received from Capacity Credits in each month); and
- potentially introduce an opportunity for gaming for Facilities which a late completing development.

Where the IMO considers in a subsequent year that a Facility will be able to make its capacity available for the whole Capacity Year, the Market Participant will be required to provide a further Reserve Capacity Security (as the existing security would have been drawn down previously by the IMO).

It is also proposed that any decisions made by the IMO to cancel a Market Participant's Capacity Credits would be a reviewable decision, on appeal to the Electricity Review Board (ERB). The IMO will work with the Office of Energy to include this decision in the list of Reviewable Decisions in the Electricity (Wholesale Electricity Market) Regulations 2004 (WEM Regulations).

1.3. The Proposal and the Wholesale Market Objectives

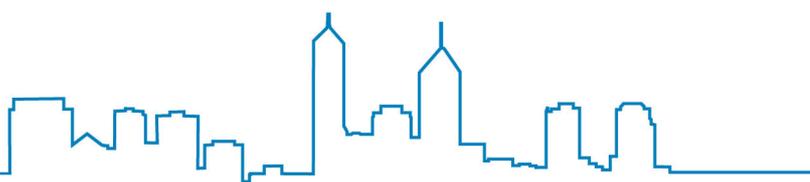
The IMO considers the changes proposed to allow the IMO to cancel a Facility's Capacity Credits in a situation where the IMO does not consider will make its capacity available to the WEM for the entire Capacity Year will have the following impact on the Wholesale market Objectives:

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

For efficient markets, more information is always better than less, and all participants have access to unbiased, instant information on which they base their decisions. Cancelling Capacity Credits to reflect whether a Facility will not be available for an entire Capacity Year will enhance information available to the market regarding the true amount of Reserve Capacity available in the SWIS. This will enable the IMO to address any shortfall issues in a timely manner and thus allow the market objectives to better address market objective (a).

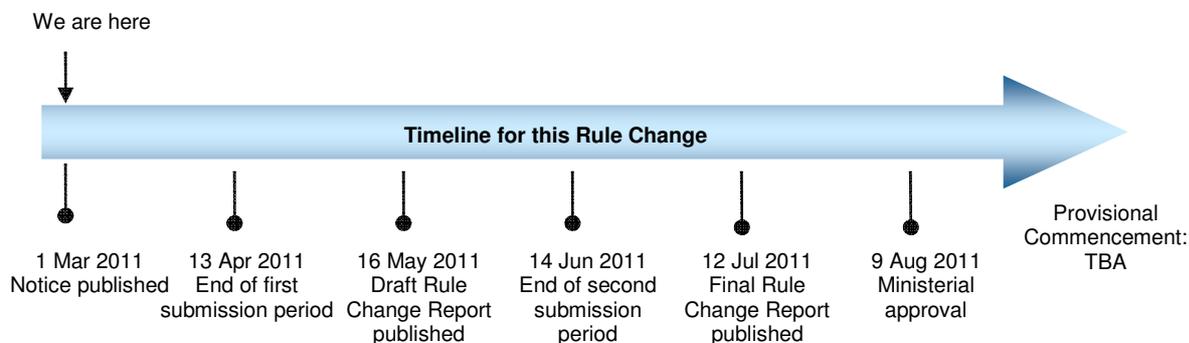
2. WHETHER THE PROPOSAL WILL BE PROGRESSED FURTHER

The IMO has decided to proceed with this proposal on the basis that its preliminary assessment indicated that the proposal is consistent with the Wholesale Market Objectives.



This Rule Change Proposal will be processed 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 30 Business Days from the publication date of this Rule Change Notice. Submissions must be delivered to the IMO by 5pm on **Wednesday, 13 April 2011**.

The IMO prefers to receive submissions by email to market.development@imowa.com.au using the submission form available on the IMO website: <http://www.imowa.com.au/rule-changes>.

Submissions may also be sent to the IMO by fax or post, addressed to:

Independent Market Operator
Attn: General Manager, Development
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 text~~, added text):

The proposed amendment will specify the IMO's decision to cancel a Facility's Capacity Credits as being a reviewable decision. This allows the Market Participant to make an appeal to the ERB in the case where it disagrees with the IMO's decision. The IMO will work with the Office of Energy to include this decision in the list of reviewable decisions in the WEM Regulations.

2.17.1. Decisions by the IMO made under the following clauses are Reviewable Decisions:

...

(kA) clause 4.20.11;

The proposed new clause will include the issuance of a Notice of Intention to Cancel Capacity Credits into the Reserve Capacity Cycle timetable in clause 4.1.

4.1.21A If required under clause 4.20.8, the IMO must issue a Notice of Intention to Cancel Capacity Credits by 5PM of the last Business Day falling on or before 15 August of Year 3 of the relevant Reserve Capacity Cycle, where the notice relates to the Capacity Year that commences on 1 October of Year 3 of that Reserve Capacity Cycle.

The proposed amendment will specify that where a Facility has had its Capacity Credits cancelled by the IMO for a Capacity Year and so its quantity of Capacity Credits is less than the Certified Reserve Capacity for a Facility, then the IMO must reduce the Facility's Reserve Capacity Obligation Quantity to reflect the amount by which Capacity Credits fall short of the Certified Reserve Capacity.

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, 4.28B.4, or 4.28C.4 is to be reduced once the Reserve Capacity Obligations take effect, as follows:

- (a) if the aggregate MW equivalent to the quantity of Capacity Credits (as modified from time to time under the Market Rules) for a Facility is less than the Certified Reserve Capacity for that Facility at any time (for example as a result of the application of clause 4.20.1, clause 4.20.11, clause 4.25.4 or clause 4.25.6), then the IMO must reduce the Reserve Capacity Obligation Quantity to reflect the amount by which the aggregate Capacity Credits fall short of the Certified Reserve Capacity;

...

The proposed new clause will specify that a Market Participant who has had its Capacity Credits cancelled by the IMO and so forfeited its original security will be required to provide additional security if it wishes to participate in the Reserve Capacity Mechanism in subsequent years.

The IMO notes that further amendments to this clause are proposed under the Rule Change Proposal: Reserve Capacity Security (RC_2010_12). In particular, RC_2010_12 proposes to amend clause 4.13.1 to clarify that Market Participants only need to provide security for a Facility for the first Reserve Capacity Cycle, unless it is for an existing facility which is undergoing significant maintenance or an upgrade. The IMO notes that the drafting as currently proposed takes into account this conceptual change as was agreed 12 May 2010 MAC meeting. Any final amendments to this clause will take into account the IMO's final decision on RC_2010_12.

4.13.1A The obligation under clause 4.13.1 to provide Reserve Capacity Security does not apply where the Market Participant has provided Reserve Capacity Security in relation to the same Facility for a previous Reserve Capacity Cycle, unless IMO has cancelled the Capacity Credits assigned to a Facility in accordance with clause 4.20.11.

The proposed new clause will specify that prior to the beginning of each Capacity Year if the IMO becomes aware, either as a result of the progress reports provided by Market Participants or as a result of any additional information it may have available to it, that a Facility will not make available its capacity it may issue a Notice of Intention to Cancel Capacity Credits.

4.20.8. If, by the date and time specified in clause 4.1.21A, the IMO becomes aware that no capacity associated with the Capacity Credits assigned to a Facility will be made available to the market for an entire Capacity Year, it must issue a Notice of Intention to Cancel Capacity Credits to the Market Participant for that Facility for that Capacity Year.

The proposed new clause will require the IMO to issue a formal notice providing details and the reasoning behind the IMO potentially cancelling the Capacity Credits assigned to the Facility. It will also provide details of the Capacity Year for which the potential cancellation will apply.

4.20.9. A Notice of Intention to Cancel Capacity Credits issued to a Market Participant by the IMO, in accordance with clause 4.20.8, must include:

- (a) the details of the Facility to which the Notice of Intention to Cancel Capacity Credits applies;
- (b) details of the evidence considered by the IMO in determining that no capacity associated with the Capacity Credits assigned to the Facility will be made available to the market for the entire Capacity Year; and
- (c) the Capacity Year for which the cancellation of Capacity Credits assigned to the Facility will apply.

The proposed new clause will allow a Market Participant to make a submission to the IMO for consideration prior to cancelling its Capacity Credits. The IMO considers that 10 Business Days will provide sufficient time for the Market Participant to prepare a submission.

Note that there is no firm requirement for a Market Participant to make a submission as it may no longer exist (as a company). In the case where a Market Participant does not make a submission to the IMO regarding this matter, this will be taken into account by the IMO in making its decision.

4.20.10. Within 10 Business Days of being issued a Notice of Intention to Cancel Capacity Credits in accordance with clause 4.20.8, the Market Participant may make a submission to the IMO detailing any reasons it considers should be taken into account by the IMO in making a final determination to cancel the Capacity Credits assigned to the Facility for the Capacity Year.

The proposed new clause will require the IMO to make a decision taking into account any submission made by the relevant Market Participant. The IMO's decision is not sequential on the receipt of a submission from a Market Participant as it is possible that one may not be made. To take this into account the timeframes for the IMO to make a decision are 10 Business Days after the last point at which a Market Participant may have made a submission.

The IMO considers that 10 Business Days will provide it with sufficient time to:

- consider the submission;
- inform and discuss with the IMO Board (if required); and
- make a decision.

4.20.11. Where the IMO has issued a Notice of Intention to Cancel Capacity Credits, in accordance with clause 4.20.8, the IMO must, within 20 Business Days of issuing the Notice of Intention to Cancel Capacity Credits, decide whether it will cancel Capacity Credits assigned to a Facility for the Capacity Year.

The proposed new clause will require the IMO to notify a Market Participant of its decision regarding whether to cancel the Capacity Credits for a Facility within 5 Business Days.

4.20.12. Where the IMO makes a decision to cancel the Capacity Credits assigned to Facility for the Capacity Year in accordance with clause 4.20.11, it must notify the Market Participant of its decision within 5 Business Days, including:

- the details of the Facility;
- a response to all issues raised by the Market Participant in any submission made in accordance with clause 4.20.10;
- details of the evidence considered by the IMO in determining that no capacity associated with the Capacity Credits assigned to the Facility will be made available to the market for the entire Capacity Year; and
- the Capacity Year for which the cancellation of Capacity Credits assigned to the Facility will apply.

The proposed new clause will require the IMO to publish on the Market Web Site the details of any Facilities that have had their Capacity Credits cancelled, the associated timeframes for the cancellation and the reasons why.

4.20.13. Within 10 Business Days of making a decision, in accordance with clause 4.20.11, the IMO must publish on the Market Web Site the information specified in clause 4.20.12(a), (c) and (d).

The proposed new clause will clarify that where the IMO has made a decision under clause 4.20.12, it will cancel the Capacity Credits for a Facility for the relevant Capacity Year.

4.20.14. Where the IMO has made a decision to cancel the Capacity Credits assigned to a Facility in accordance with clause 4.20.11, the IMO must cancel the Capacity Credits assigned to the Facility for the Capacity Year specified in clause 4.20.12(d).

The proposed amendment to clause 4.25.12 will allow the IMO to use the information about the outcome of the Capacity Credit cancellation in its assessment of Certified Reserve Capacity, Capacity Credit assignment and setting obligations in the future. This will be similar to if a Facility had its Capacity Credits reduced through the normal testing process.

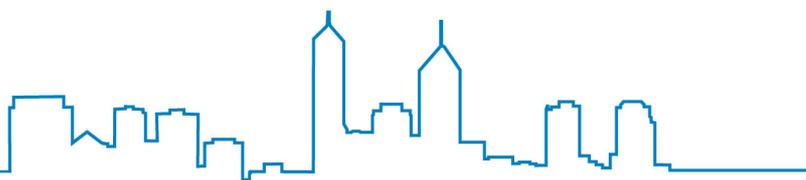
4.25.12. The IMO may use the results of tests under this clause 4.25, or a cancellation of Capacity Credits in accordance with clause 4.20.11 in respect of a Facility in assigning Certified Reserve Capacity and setting Reserve Capacity Obligation Quantities for the Facility for subsequent Reserve Capacity Cycles.

...

The proposed amendments to clause 4.27.10 and 4.27.10A will take into account the situation where a Facility has had its Capacity Credits cancelled. As currently drafted a Market Participant would not be required to provide the IMO with additional progress updates as they would no longer hold capacity credits.

4.27.10. Subject to clauses 4.27.11C and 4.27.10A, Market Participants holding assigned Capacity Credits for Facilities that are yet to commence operation must file a report on progress with the IMO at least once every three months from the date the Capacity Credit is confirmed under clause 4.20.

4.27.10A. Market Participants holding assigned Capacity Credits for Facilities that are yet to commence operation must file a report on progress with the IMO at least once every month between the commencement of the calendar year in which the date referred to in clause 4.10.1(c)(iii)(7) falls and the date the IMO has notified the Market Participant, in accordance with clause 4.13.10A, of its determination, that the need to maintain the Reserve Capacity Security for the Facility has ceased.



The proposed amended clause will define the information specified in clause 4.20.12(a), (c) and (d) as being public information.

10.5.1. The IMO must set the class of confidentiality status for the following information under clause 10.2.1, as Public and the IMO must make each item of information available from the Market Web-Site after that item of information becomes available to the IMO:

...

- (f) the following Reserve Capacity information (if applicable):
- i. Requests for Expressions of Interest described in clause 4.2.3 for the previous five Reserve Capacity Cycles;
 - ii. the summary of Requests for Expressions of Interest described in clause 4.2.7 for the previous five Reserve Capacity Cycles;
 - iii. the Reserve Capacity Information Pack published in accordance with clause 4.7.2 for the previous five Reserve Capacity Cycles;
 - iv. for each Market Participant holding Capacity Credits, the Capacity Credits provided by each Facility for each Reserve Capacity Cycle. In the case of a Market Participant with a Demand Side Programme, the IMO must publish the total Capacity Credits for the programme and not for each Curtailable Load comprising the programme;
 - v. the identity of each Market Participant from which the IMO procured Capacity Credits in the most recent Reserve Capacity Auction, and the total amount procured, where this information is to be published by January 7th of the year following the Reserve Capacity Auction;
 - vi. for each Special Price Arrangement for each Registered Facility:
 1. the amount of Reserve Capacity covered;
 2. the term of the Special Price Arrangement; and
 3. the Special Reserve Capacity Price applicable to the Special Price Arrangement,where this information is to be current as at, and published on, January 7th of each year;
 - vii. all Reserve Capacity Offer quantities and prices, including details of the bidder and facility, for a Reserve Capacity Auction, where this information is to be published by January 7th of the year following the Reserve Capacity Auction; ~~and~~

- viii. reports summarising facility tests and reasons for delays in those tests, as required by clause 4.25.11.
- ix. The following annually calculated and monthly adjusted ratios:
 - 1. NTDL_Ratio as calculated in accordance with Appendix 5, STEP 8;
 - 2. TDL_Ratio as calculated in accordance with Appendix 5, STEP 8; and
 - 3. Total_Ratio as calculated in accordance with Appendix 5, STEP 10; and
- x. for a Facility that has had its Capacity Credits cancelled for the Capacity Year, the information specified in clause 4.20.12(a) and (d).

...

Chapter 11: Glossary

Notice of Intention to Cancel Capacity Credits: A notice issued by the IMO under clause 4.20.8 and containing the information required under clause 4.20.9.

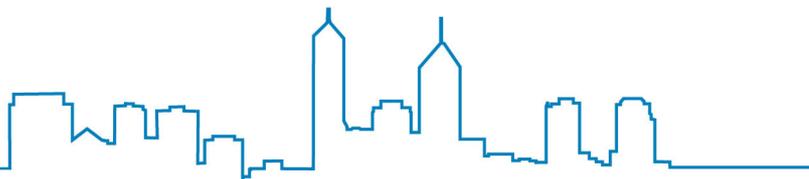
5. ABOUT RULE CHANGE PROPOSALS

Market Rule 2.5.1 of the Market Rules provides that any person (including the IMO) may make a Rule Change Proposal by completing a Rule Change Proposal Form and submit this to the 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.