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## Wholesale Electricity Market Rule Change Proposal Form

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**Change Proposal No: RC\_2011\_03**  
**Received date: 28 February 2011**

**Change requested by:**

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<b>Date submitted:</b>	28 February 2011
<b>Urgency:</b>	1-low
<b>Change Proposal title:</b>	Modification to over Capacity Credit Allocation Submission penalty
<b>Market Rule(s) affected:</b>	9.4.12

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### Introduction

Market Rule 2.5.1 of the Wholesale Electricity Market Rules provides that any person (including the IMO) may make a Rule Change Proposal by completing a Rule Change Proposal Form that must be submitted to the Independent Market Operator.

This Change Proposal can be posted, faxed or emailed to:

**Independent Market Operator**

Attn: Manager Market Development and System Capacity

PO Box 7096

Cloisters Square, Perth, WA 6850

Fax: (08) 9254 4339

Email: [market.development@imowa.com.au](mailto:market.development@imowa.com.au)

The Independent Market Operator will assess the proposal and, within 5 Business Days of receiving this Rule Change Proposal form, will notify you whether the Rule Change Proposal will be further progressed.

In order for the proposal to be progressed, all fields below must be completed and the change proposal must explain how it will enable the Market Rules to better contribute to the achievement of the wholesale electricity market objectives. The objectives of the market 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.

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## **Details of the proposed Market Rule Change**

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### **1. Describe the concern with the existing Market Rules that is to be addressed by the proposed Market Rule change:**

#### **Rule Change Proposal Background**

Market Rule 9.4.12 was intended by the market designers to prevent a Market Participant, for a Trading Month, from retaining more Capacity Credits than required for their Individual Reserve Capacity Requirement (**IRCR**) and thereby preventing others in the market from gaining these Capacity Credits.

The mechanism Market Rule 9.4.12 uses to prevent such behaviour by Market Participants is to disregard all Capacity Credit Allocation Submissions to the Market Participant forcing the Market Participant to repurchase their entire IRCR of Capacity Credits from the IMO.

The ability for the IMO to prevent Capacity Credit Allocation Submissions exceeding a Market Participant's IRCR is critical, but the existing approach of cancelling all Capacity Credits submitted by the offending Market Participant is excessive and unnecessary to either discourage the behaviour or penalise the offender.

#### **Proposed Change to Existing Market Rule**

It is proposed that all the IMO needs to do to eliminate excess Capacity Credit Allocation Submissions is to remove from the offending Market Participant the excess quantity only.

For example, currently if a Market Participant has a monthly IRCR of 100 but was the recipient of Capacity Credit Allocation Submissions from capacity credit holders of 101 and

through inadvertence or some other reason did not respond to the IMO's request to reduce the excess, then Market Rule 9.4.12 would revoke the allocation of all 101 Capacity Credits, forcing the Market Participant to repurchase 100 from the IMO. This Rule Change Proposal would limit the revocation to a single Capacity Credit, leaving the Market Participant with 100 and allocating the remaining 1 back to the IMO for distribution.

### **Reasons for the Proposed Change**

The market wants to avoid a Market Participant retaining more Capacity Credits than their IRCR. The Rule Change Proposal achieves this result, but is an improvement on the existing arrangement as it does not excessively penalise the offending Market Participant. To explain this view, the above example is reused:

If the Market Participant purchased the 101 Capacity Credits submitted to it from capacity holders at \$10,000 per Capacity Credit then this would deliver a cost to the Market Participant of \$1,010,000. Under the current arrangements the IMO would revoke these Capacity Credits and so the Market Participant would be required to repurchase the required 100 at the prevailing market rate, say again \$10,000/MW, and as a result the Market Participant would incur an additional cost of \$1,000,000 and so would have paid a total of \$2,010,000 to cover their IRCR, effectively incurring a penalty of \$1,010,000. This is clearly an enormous penalty for something that may have resulted from an administrative oversight.

With the proposed change, the Market Participant would only have one Capacity Credit revoked. The Market Participant would still have paid their capacity holders \$1,010,000 for capacity, with an overpayment or "penalty" of \$10,000.

Clearly, the proposed change reduces the size of the penalty significantly, but corrects for the wrong Capacity Credit Allocation Submission whilst still, and more appropriately, penalising the offending Market Participant.

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## **2. Explain the reason for the degree of urgency:**

This proposed rule change is not urgent, given that its purpose is only to reduce the potential penalty paid by a Market Participant to a reasonable amount.

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**3. Provide any proposed specific changes to particular Rules:** (for clarity, please use the current wording of the Rules and place a ~~strickthrough~~ where words are deleted and underline words added)

9.4.12 If a Market Participant requested to nominate modifications in accordance with clause 9.4.10 does not comply with clause 9.4.11, the quantity of Capacity Credit Allocation Submissions exceeding the Market Participant's Individual Reserve Capacity Requirement, insofar as they allocate Capacity Credits to that Market Participant, will be revoked and will be disregarded by the IMO.

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**4. Describe how the proposed Market Rule change would allow the Market Rules to better address the Wholesale Market Objectives:**

This proposed rule better achieves Market Objective (d) in that it potentially minimises the long-term cost of electricity by moderating application of excessive penalties.

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**5. Provide any identifiable costs and benefits of the change:**

Costs may result if changes are required to the IMO's systems.

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