



Independent Market Operator

Rule Change Notice

**Title: Funding of SRC in the
event of capacity credit
cancellation**

Ref: RC_2008_34

Standard Rule Change Process

Date: 7 November 2008

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1. THE RULE CHANGE PROPOSAL

1.1. The Submission

On 2 October 2008 the Independent Market Operator (IMO) submitted a Rule Change Proposal regarding changes to clauses 4.28.4, 4.28.4A, 4.28.4B and 4.28.4C of the Wholesale Electricity Market Rules (Market Rules).

This Rule Change Notice is published according to Market Rule 2.5.7, which requires the IMO to publish a notice within 7 Business Days of receiving a Rule Change Proposal.

1.1.1 Submission details

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Date submitted:	<i>2 October 2008</i>
Urgency:	<i>High</i>
Change Proposal title:	Funding of SRC in the event of capacity credit cancellation

1.2. Details of the Proposal

Rule Change Proposal RC_2008_27: Funding of Supplementary Reserve Capacity, which is yet to complete its rule change process would, if implemented, remove the net payments to be made by the IMO under Supplementary Capacity Contracts from the Targeted Reserve Capacity Cost and include it as a component in the Shared Reserve Capacity Cost.

The Shared Reserve Capacity Cost is the cost of Reserve Capacity to be shared amongst all Market Customers for the Trading Month. If the change under rule change RC_2008_27 is implemented this cost will encapsulate the cost for funding Supplementary Capacity Contracts, that is, the cost for funding Supplementary Reserve Capacity (SRC).

The Supplementary Reserve Capacity Working Group, which held its final meeting on 22 September 2008, has resolved that additional changes would have to be implemented to the funding of Supplementary Capacity Contracts to address the objectives of the market rules.

The majority view of the Working Group was that if a market participant has its capacity credits reduced, which results in a shortfall and SRC is called, the cost of SRC should be targeted at the market participant. That is, the market participant should pay to the IMO compensation due to capacity credits not being available to the market [see proposed insertion of 4.28.4(aA)(ii) in section 3 of this discussion paper].

The proposed new clause 4.28.4A stipulates how much a market participant must pay the IMO where the number of capacity credits held by that market participant for a facility have been reduced and caused the need for SRC. 4.28.4A(a) specifies that the amount to be paid must equal the cost of funding Supplementary Capacity Contracts for the capacity shortfall stemming solely from the unavailability of the market participant's capacity credits. Clause 4.28.4A(b) limits the amount to the total value of capacity credit payments that would have been associated with the reduced capacity credits.

In addition, the Working Group resolved that a market participant holding capacity credits for a facility undergoing an extended forced outage should also recompense the market by an amount equal to the cost of funding Supplementary Capacity Contracts associated with a capacity shortfall brought on by the extended forced outage [see insertion of 4.28.4B(a)].

This would also include new facilities which are not fully commissioned by 30 November of the Relevant Capacity year and thus experience an extended forced outage until properly commissioned.

Clause 4.28.4B(b) limits this amount to half of the total value of capacity credit payments associated with the capacity experiencing the delay or the forced outage.

In the case where a number of factors have contributed to a capacity shortfall, new clause 4.28.4C would require the IMO to proportion the total cost of funding the Supplementary Capacity Contracts in such a way that each relevant Market Participant only pays the portion which is attributable to its capacity being unavailable to the market.

1.3. The Proposal and the Wholesale Market Objectives

(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 IMO submits that the proposal supports market objective (a) by promoting the economically efficient and reliable supply of electricity in the South West Interconnected System. This will be achieved by ensuring that:

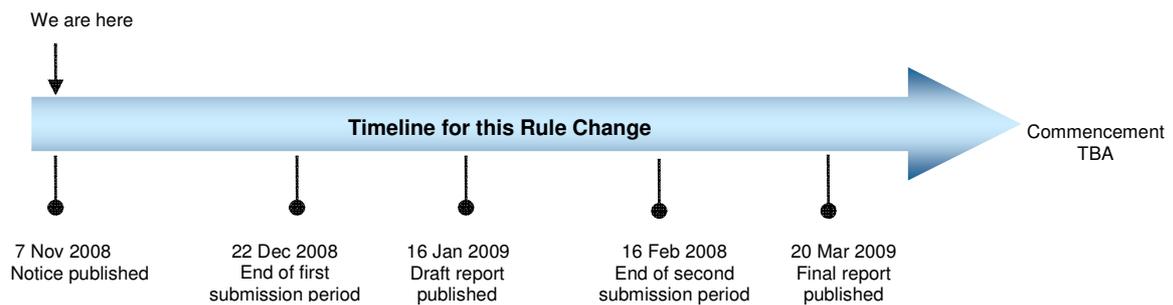
- the cost of SRC is targeted at the participant that causes that cost, which is the participant that can best manage the risk of capacity not being available to the market when required; and
- the reliability of electricity supply is maintained by providing strong incentives for participants to apply for realistic capacity credit levels and commissioning schedules as part of their certification applications.

2. WHETHER THE PROPOSAL WILL BE PROGRESSED FURTHER

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

The IMO has decided to process this Rule Change Proposal 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 six weeks from the publication date of this notice. Submissions must be delivered to the IMO by close of business on **Monday 22 December 2008**.

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_MarketRulesChangeSummary.html

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

Independent Market Operator
Attn: Manager Market Administration
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 words~~, added words):

- 4.28.4. For each Trading Month, the IMO must calculate a Shared Reserve Capacity Cost being the sum of:
- (a) the cost defined under clause 4.28.1(b); and
 - (aA) the net payments to be made by the IMO under Supplementary Capacity Contracts less:
 - (i) any amount drawn under a Reserve Capacity Security by the IMO and distributed in accordance with clause 4.13.11(a); less
 - (ii) any amount paid to the IMO in accordance with clause 4.28.4B;
less
 - (b) the Capacity Cost Refunds for that Trading Month; less
 - (bA) the Intermittent Load Refunds for that Trading Month; less
 - (c) any amount drawn under a Reserve Capacity Security by the IMO and distributed in accordance with clause 4.13.11(b)

and the IMO must allocate this total cost to Market Customers in proportion to each Market Customer's Individual Reserve Capacity Requirement.

4.28.4A. Where the number of Capacity Credits held by a Market Participant for a Facility have been reduced in accordance with clause 4.25.4 or 4.25.4C, the Market Participant must pay to the IMO, as compensation to the market, an amount:

- (a) equal to the cost of funding Supplementary Capacity Contracts for any capacity shortfall stemming entirely from the reduced Capacity Credits not being available to the market; and
- (b) not greater than the total value of the Capacity Credit payments associated with the reduced Capacity Credits that would have been paid 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 these Capacity Credits and the cost of each Capacity Credit so acquired is determined in accordance with clause 4.28.2(d).

4.28.4B. Where a Facility, including a new Facility, suffers an extended Forced Outage, the Market Participant holding Capacity Credits for that Facility must pay to the IMO, as compensation to the market, an amount:

- (a) equal to the cost of funding Supplementary Capacity Contracts for any capacity shortfall stemming entirely from the capacity suffering the Forced Outage not being available to the market; and
- (b) not greater than half of the total value of the Capacity Credit payments associated with the capacity experiencing the forced outage that are due 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 these Capacity Credits and the cost of each Capacity Credit so acquired is determined in accordance with clause 4.28.2(d).

4.28.4C. For the purpose of clauses 4.28.4A and 4.28.4B, where there are a number of factors contributing to the expected amount of a shortfall determined in accordance with clause 4.24.1, the IMO must proportion the total cost of funding Supplementary Capacity Contracts (acquired by the IMO to address the shortfall) so that the amount paid by the Market Participant under clause 4.28.4A or 4.28.4B offsets only that portion of the total cost stemming entirely from the relevant capacity not being available.

5. ABOUT RULE CHANGE PROPOSALS

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