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## Wholesale Electricity Market Rule Change Proposal Form

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**Change Proposal No:** RC\_2008\_34

**Received date:** 2 October 2008

### Change requested by

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<b>Date submitted:</b>	2 October 2008
<b>Urgency:</b>	High
<b>Change Proposal title:</b>	<b>Funding of SRC in event of capacity credit cancellation</b>
<b>Market Rule(s) affected:</b>	Clauses 4.28.4, 4.28.4A, 4.28.4B and 4.28.4C

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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: Troy Forward, Manager Market Administration and Reserve Capacity  
PO Box 7096  
Cloisters Square, Perth, WA 6850

Fax: (08) 9254 4399

Email: [marketadmin@imowa.com.au](mailto:marketadmin@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 progressed further.

In order for the proposal to be progressed, all fields below must be completed and the rule 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 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.

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

This proposed rule change can be progressed via the standard rule change process. It is also recommended that the change is not applied retrospectively.

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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 ~~strikethrough~~ where words are deleted and underline words added)**

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.

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

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

**Costs**

There may be system changes associated with implementing this proposed rule change which are yet to be fully quantified.

**Benefits**

The proposed rule change supports the Market Objectives as outlined in section 4 of this proposal.

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