

The background of the lower half of the page is a photograph of wind turbines and high-voltage power lines. The image is overlaid with a semi-transparent blue filter. The wind turbines are on the left, and the power lines are on the right, creating a grid-like pattern.

**Independent Market Operator**

**Final Rule Change Report**

**Title: Removal of DDAP Uplift when less  
than facility minimum generation**

**RC\_2010\_08**

**Standard Rule Change Process**

**Date: 29 June 2012**

## CONTENTS

<b>1.</b>	<b>RULE CHANGE PROCESS AND TIMETABLE.....</b>	<b>4</b>
<b>2.</b>	<b>PROPOSED AMENDMENTS .....</b>	<b>4</b>
2.1	The Rule Change Proposal .....	4
2.2	The IMO's Initial Assessment of the Proposal.....	5
<b>3.</b>	<b>CONSULTATION.....</b>	<b>5</b>
3.1	The Market Advisory Committee .....	5
3.2	Submissions received during the first submission period .....	6
3.3	The IMO's response to submissions received during the first submission period .....	6
3.4	Submissions received during the second submission period.....	6
3.5	Public Forums and Workshops.....	6
<b>4.</b>	<b>THE IMO'S DRAFT ASSESSMENT.....</b>	<b>6</b>
<b>5.</b>	<b>THE IMO'S PROPOSED DECISION .....</b>	<b>7</b>
<b>6.</b>	<b>THE IMO'S ASSESSMENT .....</b>	<b>7</b>
6.1	The IMO's assessment of the impacts of the proposed changes and their interaction with other Rule Change Proposals .....	7
6.2	Wholesale Market Objectives .....	7
6.3	Practicality and Cost of Implementation .....	8
<b>7.</b>	<b>THE IMO'S DECISION.....</b>	<b>8</b>
7.1	Reasons for the IMO's Decision .....	8

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## EXECUTIVE SUMMARY

### ***Proposed Amendments***

The Rule Change Proposal seeks to remove the application of Downward Deviation Administered Price (DDAP) in instances where a Scheduled Generator deviates downwards from its Resource Plan in real time as a result of ramping up (or down) so that the output of that Facility was less than registered minimum generation (as provided in Facility registration data) or the Facility had experienced a complete Forced Outage.

### ***Consultation***

- The Market Advisory Committee (MAC) discussed the Rule Change Proposal at its 10 March 2010 meeting. Given the work underway by the Market Rules Working Group (Oates Review) to consider a number of much bigger issues, the MAC did not support the Rule Change Proposal being put into the formal process.
- Griffin Energy submitted the Rule Change Proposal on 19 April 2010. The first submission period was from 20 April 2010 to 1 June 2010. Submissions were received from Alinta, Landfill Gas & Power, Perth Energy, Synergy, System Management and Verve Energy. General views presented in these submissions were in support of the proposal, though there were calls for further refinement.
- Given that the Rules Development Implementation Working Group was undertaking a thorough review of UDAP and DDAP in the market (as agreed at the August 2010 MAC meeting), the IMO, in conjunction with Griffin Energy, determined it was appropriate to delay the timeline for preparing the Draft Rule Change Report until a decision on the changes proposed under RC\_2011\_10 to remove UDAP and DDAP had been made.
- The second submission period was from 20 April 2012 to 21 May 2012 during which no further submissions were received.

### ***The IMO's Decision***

The IMO's decision is to reject the Rule Change Proposal. This decision has been made given the Amending Rules from the Rule Change Proposal: Competitive Balancing and Load Following Market (RC\_2011\_10), which are scheduled to commence on 1 July 2012, have removed the concept of DDAP in its entirety.

## 1. RULE CHANGE PROCESS AND TIMETABLE

On 15 April 2010, Griffin Power submitted a Rule Change Proposal regarding amendments to clause 6.17.4 of the Wholesale Electricity Market Rules (Market Rules).

This proposal has been progressed using the Standard Rule Change Process, described in section 2.7 of the Market Rules. In accordance with clause 2.5.10 of the Market Rules, the IMO decided to extend the timeframe for the preparation of the Draft Rule Change Report. Further details of the extensions are available on the IMO website.

The key dates in processing this Rule Change Proposal as amended in the extension notices are:



## 2. PROPOSED AMENDMENTS

### 2.1 The Rule Change Proposal

In its Rule Change Proposal, Griffin Energy noted that the Market Rules allow for the Downward Deviation Administered Price (DDAP) to be applied uniformly to all instances where a Scheduled Generator deviated downwards from its Resource Plan in real time<sup>1</sup>. Griffin Energy noted that a Facility will only be operating below its registered minimum generation under a Resource Plan when ramping up to a level above the minimum or ramping down to zero, or when under a Forced Outage affecting its entire capacity. Imposing DDAP in instances where a facility is ramping up (or down) according to a Resource Plan, in the intervals when the Resource Plan is less than the facility's registered minimum generation, imposes an additional cost on the Scheduled Generator above the Marginal Cost Administered Price (MCAP) levied on the difference between the Resource Plan and the actual generation. In other words, the DDAP penalty is an attempt to incentivise an outcome which the generator is unlikely to be able to control. Likewise, Griffin Energy considered that the application of DDAP when a facility is on a complete Forced Outage imposes an additional superfluous cost above MCAP as well as the cost of capacity refunds.

Griffin Energy proposed to remove the application of DDAP in instances where a Facility:

- was ramping up (or down) according to a Resource Plan and the output of that Facility was less than registered minimum generation (as provided in Facility registration data); or
- had experienced a complete Forced Outage.

<sup>1</sup> The Rule Change Proposal refers to the Market Rules prevailing at that time. Several clauses of the Market Rules have subsequently been amended to reflect the changes resulting from the Market Evolution Plan

Griffin Energy considered that the removal of DDAP below minimum generation would be consistent with the acknowledgement of facility limitations under Facility Registration Standing Data and would remove an inefficient cost (or wealth transfer) in the market.

For full details of the Rule Change Proposal please refer to the IMO Website: [http://www.imowa.com.au/RC\\_2010\\_08](http://www.imowa.com.au/RC_2010_08)

## **2.2 The IMO's Initial Assessment of the Proposal**

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

## **3. CONSULTATION**

### **3.1 The Market Advisory Committee**

A pre-Rule Change Proposal was presented at the Market Advisory Committee (MAC) meeting held on 10 March 2010. During the meeting the following points were raised:

- Perth Energy queried whether changing the tolerance applied to deviations below minimum generation would also solve this issue. System Management noted that it is unlikely that a Market Generator would operate in the range below minimum generation for a prolonged period. NewGen noted its support for the proposal and queried the continued need for DDAP in the market.
- The IMO queried if Market Participants would not nominate a higher value for minimum generation should this Rule Change Proposal progress to remove their exposure to refunds. Griffin Energy noted that minimum generation is a technical parameter provided during registration and would require auditing. The IMO queried why if a facility is unreliable below minimum generation they should not be required to make Capacity Credit repayments for this energy.
- System Management noted that because of the incentives currently created by the Market Rules it is often only requested to bring plant back into operation during off peak periods so Market Generators can avoid DDAP payments. The IMO noted that Market Generators should also have incentives to bring plant back on earlier to meet Reserve Capacity Obligations.
- Verve Energy noted that for some facilities it may take a few hours to be operating above minimum generation when coming back into operation from a Planned Outage. Additionally, NewGen noted the larger issue associated with System Management's new requirements, introduced under the Procedure Change Proposal: Dispatch (PPCL0014), that Market Participants use reasonable endeavours not to exceed a 6MW per minute average rate when ramping a Scheduled Generator. NewGen noted that its facilities would operate to ramp up as quickly as possible to avoid paying DDAP.
- The IMO noted that these are much bigger issues which are being considered by the Oates Review implementation team when considering the options to implement the outcomes of the Oates Review. Additionally, the IMO noted that without rigour around the Standing Data for minimum generation of a facility there would be potential for Market Participants to game the market.

The MAC agreed that the Market Rules Design Team should review this issue further and therefore did not support a Rule Change Proposal being put into the process.

Further details are available in the MAC meeting minutes available on the IMO website: <http://www.imowa.com.au/MAC>

### **3.2 Submissions received during the first submission period**

The first submission period for this Rule Change Proposal was between 20 April 2010 and 1 June 2010. The IMO received submissions from Alinta, Landfill Gas & Power (LGP), Perth Energy, Synergy, System Management and Verve Energy.

In summary, LGP, Perth Energy and Synergy supported the proposal. Both Alinta and System Management supported the intent of the proposal but noted that further refinements were required to the Amending Rules. In particular, System Management submitted that the IMO needed to fully consider system security implications of the proposed amendments due to the issues raised in its submission. Verve Energy did not indicate its support for the proposal. Verve Energy noted that there was little data to show the significance of uncontrollable deviations and suggested that IMO make an assessment of such variations.

Alinta and Verve Energy identified that the Amending Rules require further modification to ensure that the deviation would be captured as an authorised deviation (clause 6.15.1 and 6.15.2) and that DDAP would apply above minimum generation. Both Perth Energy and System Management noted the need to develop a mechanism to require proposed minimum generation values for each facility to be independently verified.

A copy of all submissions in full received during the first submission period is available on the following IMO website: [http://www.imowa.com.au/RC\\_2010\\_08](http://www.imowa.com.au/RC_2010_08)

### **3.3 The IMO's response to submissions received during the first submission period**

The IMO's response to each of the issues identified during the first submission period was presented in section 4.3 of the Draft Rule Change Report.

In its Draft Rule Change Report the IMO noted that overall, the Amending Rules resulting from the Rule Change Proposal: Competitive Balancing and Load Following Market (RC\_2011\_10) which are scheduled to commence on 1 July 2012, have removed the concept of both DDAP and UDAP in their entirety. The IMO considered that the proposed amendments are therefore no longer required to correct the issue identified by Griffin Energy.

### **3.4 Submissions received during the second submission period**

Following publication of the Draft Rule Change Report, the second submission period was between 20 April 2012 and 21 May 2012.

The IMO did not receive any submissions during this period.

### **3.5 Public Forums and Workshops**

No public forums or workshops were held in relation to this Rule Change Proposal.

## **4. THE IMO'S DRAFT ASSESSMENT**

The IMO's draft assessment, against clauses 2.4.2 and 2.4.3 of the Market Rules, and analysis of the Rule Change Proposal can be viewed in the Draft Rule Change Report available on the IMO's website.

## 5. THE IMO'S PROPOSED DECISION

The IMO's proposed decision in its Draft Rule Change Report was to reject the Rule Change Proposal. Details of the rationale for the IMO's proposed decision are presented in the Draft Rule Change Report.

## 6. THE IMO'S ASSESSMENT

In preparing its 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"*. 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

A summary of the views expressed in submissions and by the MAC is available in section 3 of this Final Rule Change Report.

### 6.1 The IMO's assessment of the impacts of the proposed changes and their interaction with other Rule Change Proposals

During the first submission period the IMO conducted a comprehensive review of the proposed changes to evaluate costs and benefits to the market. The assessment identified that, while there would be financial benefits to Independent Power Producers associated with the changes, these were likely to be negated by the costs of implementation of the Amending Rules when spread over a two year period.

On the basis of these findings and given that the Rules Development Implementation Working Group was undertaking a thorough review of UDAP and DDAP in the market (as agreed at the August 2010 MAC meeting), the IMO, in conjunction with Griffin Energy, determined it was appropriate to delay the timeline for preparing the Draft Rule Change Report until a decision on the changes proposed under RC\_2011\_10 to remove UDAP and DDAP had been made.

The IMO notes that the Ministers approval of the proposed Amending Rules resulting from RC\_2011\_10 was provided on 23 March 2012. The Amending Rules are scheduled to commence shortly and will remove the issue identified by Griffin Energy that RC\_2010\_08 seeks to correct.

### 6.2 Wholesale Market Objectives

The IMO notes that in light of the Amending Rules resulting from RC\_2011\_10 that will remove the concepts of DDAP and UDAP in their entirety, the proposed amendments will no longer be required to address the issues identified originally by Griffin Energy. The IMO considers that the

proposed amendments would have no impact on the Wholesale Market Objectives from the date when the Amending Rules from RC\_2011\_10 commence.

### **6.3 Practicality and Cost of Implementation**

Given that under RC\_2011\_10 the concepts of DDAP and UDAP in their entirety, the proposed amendments will no longer be required to address the issues identified originally by Griffin Energy. Given the redundancy of the proposed changes the IMO does not consider that there is any need to assess their practicality and cost of implementation.

## **7. THE IMO'S DECISION**

Based on the matters set out in this report, the IMO's decision is to reject the Rule Change Proposal.

### **7.1 Reasons for the IMO's Decision**

The IMO has made its decision on the basis that as the Amending Rules resulting from RC\_2011\_10 have removed the concept of both DDAP and UDAP in their entirety. The proposed amendments are therefore no longer required to correct the issue identified by Griffin Energy.