



Independent Market Operator

Rule Change Notice

**Title: Changing the Window
of Entry into the
Reserve Capacity
Market**

Ref: RC_2009_11

Standard Rule Change Process

Date: 22 May 2009

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1. THE RULE CHANGE PROPOSAL

1.1. *Extension of the date for producing the Draft Rule Change Report*

In accordance with clause 2.5.10 of the Wholesale Electricity Market Rules the IMO decided to extend the timeframe for preparing the Draft Rule Change Report for this Rule Change Proposal until 19 June 2009. A notice of this extension was published under clause 2.5.12 on the IMO website on 22 May 2009.

This Rule Change Notice has been updated with the revised timelines following the notice of extension. All other parts of this document remain unchanged from the original version published on 13 March 2009.

1.2. *The Submission*

On 4 March 2009 the Independent Market Operator (IMO) submitted a Rule Change Proposal regarding changes to clauses 4.1.26 and 4.11.1 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.

1.2.1 *Submission details*

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Date submitted:	4 March 2009
Urgency:	Medium
Change Proposal title:	Changing the Window of Entry into the Reserve Capacity Market
Market Rule(s) affected:	Clauses 4.1.26 and 4.11.1

1.3. *Details of the Proposal*

A key objective for the Wholesale Electricity Market (WEM) is to ensure that electricity and related services are provided reliably and economically. This is a significant issue in Western Australia because the electricity system is isolated and supplies cannot be drawn from neighbouring systems during times of system peak demand.

The provision of capacity in Western Australia is achieved through the Reserve Capacity Mechanism. This is a set of processes through which the IMO determines the amount of generation and Demand Side Management capacity required to meet future demand and reliability requirements. Key to this process is the investors themselves and investor sentiment around entry into the market.

Under the current provisions, the Reserve Capacity Mechanism operates on a cycle which sees all capacity first certified and then assigned Capacity Credits, either through a bilateral trade declaration or auction process. The process of receiving Certified Reserve Capacity is the first significant step in receiving Capacity Credits. This technical evaluation step is used to determine what capacity capability can be provided by a Facility. Capacity Credits are then assigned first through the bilateral trade declaration process and then if needed through a Reserve Capacity Auction.

Currently the timeframe for new capacity to enter the Reserve Capacity market (market) is a four-month window centralised around the start of a new Capacity Year on 1 October (the window for entry is between 1 August and 30 November). This timeframe allows new Facilities to enter the market and receive the benefit of Capacity Credits and any associated income stream from 1 August. Market Participants are encouraged to enter the market as early as possible so that any initial commissioning issues do not affect the power system at critical times over summer.

Market Participants have the ability to nominate initial projected dates of entry into the market (between 1 August and 30 November) and revise these dates, as part of their regular reporting requirements, as the project nears completion. Once the Facility is fully capable of meeting its obligations and has completed commissioning the Facility is subject to Capacity Cost Refunds for unapproved outages. Capacity Cost Refunds also apply from 1 December for Facilities which have not completed commissioning by 30 November.

The IMO considers that the current dates for entry of new capacity may encourage risk taking. For example, a developer may take an optimistic view and bring a project forward in order to meet the 30 November deadline. This may especially be the case if the alternative to coming on before 30 November is to delay the project until the next Capacity Year.

Developers taking risk around project completion timeframes, for example nominating unreasonable project completion timelines, can place the whole power system at risk if the capacity is not delivered on time.

In response to these considerations, the IMO proposes to retain the four month window of entry for new entrant generators, but bring the window forward to start on 1 June, with all capacity to be fully available no later than 1 October each year. This will have a net benefit to the market by minimising the risk associated with bringing new capacity into service. By coming on no later than 1 October new plant will have a few months to fine-tune its operations before the summer peak demand period.

The concept of shifting the window of entry for new entrant generators was presented by the IMO to the Market Advisory Committee (MAC) at the December 2008 and February 2009 meetings. This Rule Change proposal is based on the outcomes of the MAC's discussions and consultation with other industry representatives. Copies of the concept papers, which contain details of the additional analysis of the various options and considerations undertaken by the IMO, are available from the IMO's public website.

The IMO proposes that these changes be implemented for the 2011/12 capacity year. This will mean that:

- a. potential developers will have sufficient time to take these changes into account when making their investment decisions;
- b. projects currently underway (for the 2009/10 and 2010/11 capacity years) which were financed under the current reserve capacity structure and may be targeting 30 November as their commissioning date will not be required to be in service by 1 October; and
- c. there should be no barriers to entry created for existing developers in the market.

It should be noted that the 2009 Request for Expressions of Interest (EOI) for the 2011/12 Reserve Capacity Cycle, released January 2009, notes that “new facilities must be available for commercial service by 30 November 2011”. However, the EOI also signaled that there are currently a number of proposed Rule improvements under consideration in the rule change mechanism provided for under the Market Rules relating to:

- a. the Certified Reserve Capacity Provisions;
- b. the timing and deadlines associated with the Certification process;
- c. fuel provisions and requirements; and
- d. renewable generation certification and requirements.

1.4. 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 proposed changes, which shift the window of entry into the market for new entrant generators, will support market objective (a) by promoting the reliable production and supply of electricity and electricity related services in the South West Interconnected System. In particular, earlier entry into the market will minimise the risk associated with bringing new capacity into service so that it is available during peak demand periods during summer. The proposed changes will improve the reliability of the supply of electricity and electricity related services for Market Customers by incentivising earlier entry. This will also potentially reduce the need to call Supplementary Reserve Capacity (SRC).

- (b) *to encourage competition among generators and retailers in the South West interconnected system, including by facilitating efficient entry of new competitors;*

The IMO submits that the proposed changes will also support market objective (b) by facilitating efficient entry of new competitors into the Reserve Capacity Market. This will be achieved by providing access to an earlier income stream and reducing the risk premiums associated with new projects, which will potentially result in a greater amount of investment in new projects.

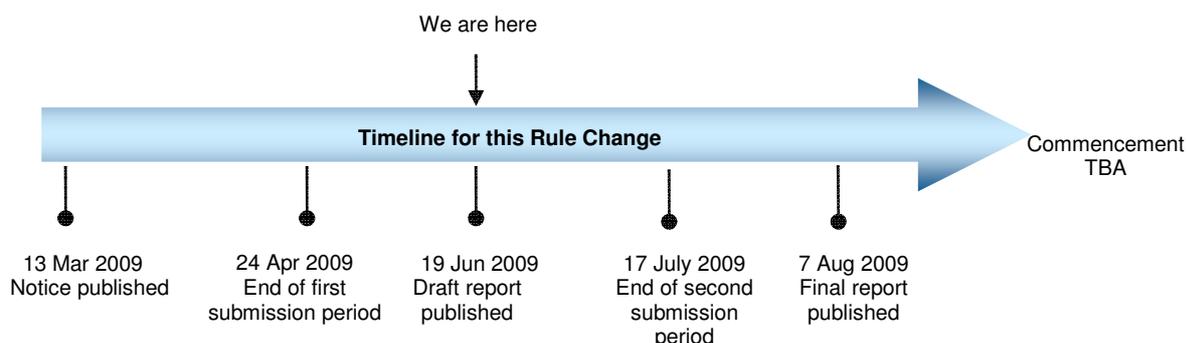
The IMO considers that the proposed changes are consistent with the other market objectives.

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. CONSULTATION

PLEASE NOTE: This section is now out of fate. The IMO did not extend the first submission period.

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 **Friday 24 April 2009**.

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 and System Capacity
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):

4.1.26. Reserve Capacity Obligations apply:

- (a) in the case of the first Reserve Capacity Cycle:
 - i. from the Initial Time, for Facilities that were commissioned before Energy Market Commencement;
 - ii. from the Trading Day commencing on the scheduled date of commissioning, as specified in accordance with clause 4.10.1(c)(iii)(7), for Scheduled Generators and Non-Scheduled Generators commissioned between Energy Market Commencement and 30 November 2007, inclusive; and
 - iii. from the Trading Day commencing on 1 October 2007 for Interruptible Loads, Curtailable Loads or Dispatchable Loads commissioned after Energy Market Commencement; and
- (b) ~~in the case of subsequent~~ for subsequent Reserve Capacity Cycles up to and including 2008:
 - i. from the Trading Day commencing on 1 October of Year 3, for Facilities that were commissioned as at the scheduled time of the Reserve Capacity Auction for the Reserve Capacity Cycle as specified in clause 4.1.18(a) or for Facilities which have provided Capacity Credits in one or both of the two previous Reserve Capacity Cycles; and
 - ii. from the Trading Day commencing on the scheduled date of commissioning, as specified in accordance with clause 4.10.1(c)(iii)(7), or as revised in accordance with clause 4.27.11A or clause 4.27.11D, for Facilities commissioned between 1 August of Year 3 and 30 November of Year 3.
- (c) for subsequent Reserve Capacity Cycles from 2009 onwards:
 - i. from the Trading Day commencing on 1 October of Year 3, for Facilities that were commissioned as at the scheduled time of the Reserve Capacity Auction for the Reserve Capacity Cycle as specified in clause 4.1.18(a) or for Facilities which have provided Capacity

Credits in one or both of the two previous Reserve Capacity Cycles;
and

- ii. from the Trading Day commencing on the scheduled date of commissioning, as specified in accordance with clause 4.10.1(c)(iii)(7), or as revised in accordance with clause 4.27.11A or clause 4.27.11D, for Facilities commissioned between 1 June of Year 3 and 1 October of Year 3.

4.11.1. Subject to clause 4.11.7, the IMO must apply the following principles in assigning a quantity of Certified Reserve Capacity to a Facility for the Reserve Capacity Cycle to which the application relates:

- (a) subject to paragraphs (d) and (e) and clause 4.11.2, the Certified Reserve Capacity for a Facility for a Reserve Capacity Cycle is not to exceed the IMO's reasonable expectation as to the amount of capacity likely to be available from that Facility, after netting off capacity required to serve Intermittent Loads, embedded loads and parasitic loads, at daily peak demand times in the period from the:

- (i) start of December for Reserve Capacity Cycles up to 2009; or
- (ii) trading day starting on 1 October for Reserve Capacity Cycles from 2009 onwards

in Year 3 of the Reserve Capacity Cycle to the end of July in Year 4 of the Reserve Capacity Cycle, assuming an ambient temperature of 41°C;

- (b) where the Facility is a generation system (other than an Intermittent Generator), the Certified Reserve Capacity must not exceed the sum of the capacities specified in clauses 4.10.1(e)(ii) and 4.10.1(e)(iii);
- (c) the IMO must not assign Certified Reserve Capacity to a Facility for a Reserve Capacity Cycle if:
 - i. for Reserve Capacity Cycles up to and including 2009 that Facility is not operational or is not scheduled to commence operation for the first time so as to meet its Reserve Capacity Obligations by ~~30 November~~ 1 October of Year 3 of that Reserve Capacity Cycle; ~~or~~
 - ii. ~~that Facility will cease operation permanently, and hence cease to meet Reserve Capacity Obligations, from a time earlier than 1 August~~ June of Year 4 of that Reserve Capacity Cycle;
 - ii. for Reserve Capacity Cycles from 2009 onwards that Facility is not operational or is not scheduled to commence operation for the first time

so as to meet its Reserve Capacity Obligations by 1 October of Year 3 of that Reserve Capacity Cycle;

iii. for Reserve Capacity Cycles up to and including 2008 that Facility will cease operation permanently, and hence cease to meet Reserve Capacity Obligations, from a time earlier than 1 August of Year 4 of that Reserve Capacity Cycle; or

iv. for Reserve Capacity Cycles from 2009 onwards that Facility will cease operation permanently, and hence cease to meet Reserve Capacity Obligations, from a time earlier than 1 June of Year 4 of that Reserve Capacity Cycle;

...

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.