

## Calculation of Reserve Capacity Refund, RC\_2007\_08

### Further Consultation

The Rule Change Proposal titled 'Calculation of Reserve Capacity Refund, RC\_2007\_08', was submitted by the IMO on 11 June 2007 and a Draft Rule Change Report was published on the IMO website on 28 August 2007.

During the second submission period regarding this Rule Change Proposal, Alinta Sales made a submission in which it states the following:

*"Alinta understands that the driver for setting some of the new refund multipliers to less than unity was to ensure that a generator on an extended outage does not hit the annual cap on the capacity credit refunds "too early" and thereby leaving no incentive to get the generator back online if the outage is a very lengthy one. However, Alinta considers it more important to have a fairly sharp incentive in the short to medium term to get generators back online rather than ensuring there is some incentive spanning the entire year. If the incentive is strong even in the short term, it would be reasonable to assume that that would drive delivery of more reliable plant. Alinta would therefore prefer to have all refund multipliers equal or greater than one."*

The IMO agrees with Alinta that it is important to have strong incentives to bring generators back online in the short term. Implementing Alinta's proposal to set all refund multipliers equal or greater than one would also ensure that a generator with a forced outage will be exposed to refunds at least equal to the amount of Capacity Credits they are paid for the period of the forced outage, regardless of when the outage occurs.

The IMO has examined the outcome of adjusting all refund multipliers to equal at least one, while retaining the level of the rest of the multipliers suggested by the Reserve Capacity Refund Mechanism Working Group and in the IMO's Draft Rule Change Report. This would result in a generator with a full forced outage commencing on 1 October reaching its annual refund cap by 19 March.

The IMO considers that it is very important to ensure full generator availability during the hot season, that is, to retain the incentive to get a generator suffering a prolonged outage back online in that season. The IMO has conducted additional analysis and considers that Alinta's proposal can be accommodated without compromising this important objective.

In order to avoid reaching the annual cap before the end of the hot season, a number of the multipliers which are greater than one also have to be adjusted. Table 1 shows the refund rates proposed by the Working Group compared with refund rates using multipliers of at least one in all periods while also reducing some of the multipliers greater than one to ensure the annual cap is not reached before the end of the hot season (i.e. until the end of March). The changes proposed to the multipliers are highlighted in the table.

The adjusted multipliers proposed in Table 1 would result in a generator with a full forced outage commencing on 1 October reaching its annual refund cap on 2 April. In comparison, with the original multipliers proposed by the Working Group the annual cap for the same outage would be reached on 9 April.

**Table 1**

<b>Refund rates per trading interval</b>	<i>Revised Proposal</i>	<i>Working Group Proposal</i>
<b><i>Intermediate season - October &amp; November</i></b>		
Business Day peak trading interval rate	1.50	1.50
Non-Bus Day peak trading interval rate	1.00	0.75
Off peak trading interval rate	1.00	0.25
<b><i>Hot season - December &amp; January</i></b>		
Business Day peak trading interval rate	3.00	4.00
Non-Bus Day peak trading interval rate	1.00	1.50
Off peak trading interval rate	1.00	0.50
<b><i>Hot season - February &amp; March</i></b>		
Business Day peak trading interval rate	6.00	6.00
Non-Bus Day peak trading interval rate	1.50	2.00
Off peak trading interval rate	1.00	0.75
<b><i>Cold Season - April to September</i></b>		
Business Day peak trading interval rate	1.50	1.50
Non-Bus Day peak trading interval rate	1.00	0.75
Off peak trading interval rate	1.00	0.25

The proposed amended Refund Table is attached in Attachment 1

The IMO is interested in your feedback on the proposed amendments to the multipliers in the proposed Reserve Capacity Refund Table.

The IMO must publish its final decision on Tuesday, 23 October 2007. Therefore, your comments on the proposed amendments would be gratefully appreciated by **noon, on Monday, 15 October 2007**.

Please do not hesitate to contact Dora Guzeleva on 08 9254 4351 if you have any queries.

ATTACHMENT 1

**REFUND TABLE**

<u>Dates</u>	<u>1 April to 1 October</u>	<u>1 October to 1 December</u>	<u>1 December to 1 February</u>	<u>1 February to 1 April</u>
<u>Business Days Off-Peak Trading Interval Rate (\$ per MW shortfall per Trading Interval)</u>	- <u>1 x Y</u>	- <u>1 x Y</u>	- <u>1 x Y</u>	- <u>1 x Y</u>
<u>Business Days Peak Trading Interval Rate (\$ per MW shortfall per Trading Interval)</u>	- <u>1.5 x Y</u>	- <u>1.5 x Y</u>	- <u>3 x Y</u>	- <u>6 x Y</u>
<u>Non-Business Days Off-Peak Trading Interval Rate (\$ per MW shortfall per Trading Interval)</u>	- <u>1 x Y</u>	- <u>1 x Y</u>	- <u>1 x Y</u>	- <u>1 x Y</u>
<u>Non-Business Days Peak Trading Interval Rate (\$ per MW shortfall per Trading Interval)</u>	- <u>1 x Y</u>	- <u>1 x Y</u>	- <u>1 x Y</u>	- <u>1.5 x Y</u>