

Independent Market Operator



Final Market Rule Change Report

Title: Capacity Credits and Facility Aggregation

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Date: 6 June 2008

CONTENTS

1.	INTRODUCTION	2
2.	THE RULE CHANGE PROPOSAL	3
2.2.	Details of the Proposal.....	3
2.3.	The IMO's Initial Assessment of the Proposal.....	4
3.	SUBMISSIONS RECEIVED IN THE FIRST SUBMISSION PERIOD	5
3.1.	Market Advisory Committee.....	5
3.2.	Submission from Landfill Gas & Power Pty Ltd (LGP)	5
3.3.	Public Forums and Workshops.....	5
4.	THE IMO'S DRAFT DECISION	6
5.	SUBMISSIONS RECEIVED IN THE SECOND SUBMISSION PERIOD	7
5.1.	Submission from Synergy.....	7
6.	THE IMO'S ASSESSMENT AND THE IMO'S FINAL DECISION	8
6.1.	The IMO's Assessment of the Rule Change Proposal	8
6.2.	The IMO's Final Decision.....	9
6.3.	Amending Rules Commencement.....	9
7.	AMENDING RULES	10
8.	GENERAL INFORMATION ABOUT RULE CHANGE PROPOSALS	12

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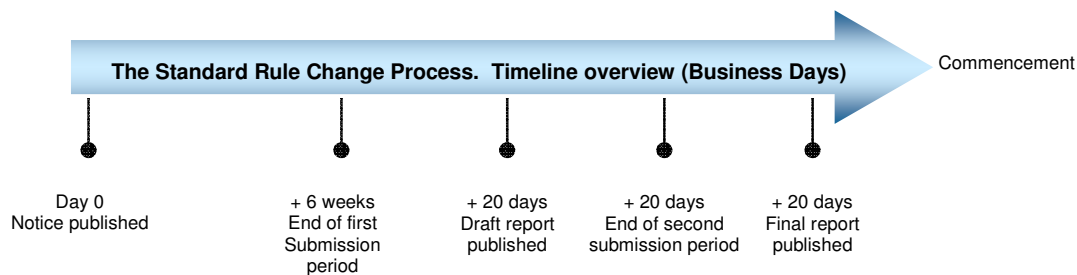
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1. INTRODUCTION

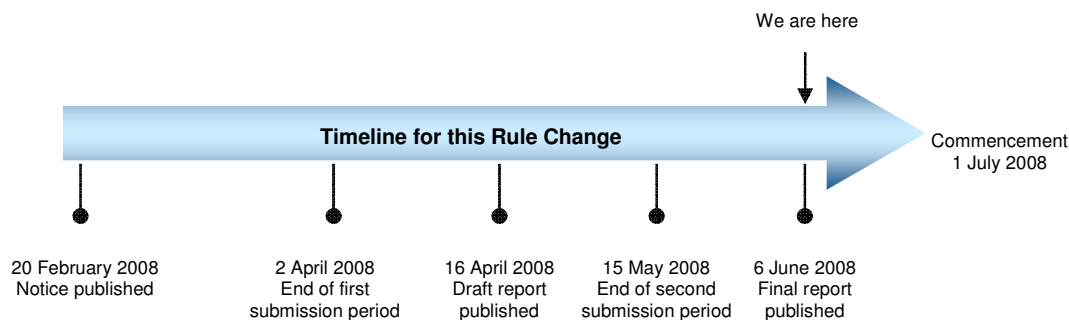
On 15 February 2008 the IMO submitted a Rule Change Proposal regarding changes to clauses 2.30.4 and 2.30.5, and the addition of new clauses 2.30.1A and 4.23A.4 to the Wholesale Electricity Market Rules.

This Proposal has been processed using the Standard Rule Change Process, described in section 2.7 of the Wholesale Electricity Market Rules.

The standard process adheres to the following timelines, outlined in section 2.7 of the Market Rules:



The key dates in processing this Rule Change Proposal are:



Based on the submissions received, the IMO's final decision is to implement the Rule Change in the form outlined in section 7 of this report.

This Final Rule Change Report on the Rule Change Proposal has been prepared by the IMO in accordance with clause 2.7.6 of the Market Rules.

The amendments to the Market Rules resulting from this Rule Change Proposal will commence at 08.00am on 1 July 2008.

2. THE RULE CHANGE PROPOSAL

On 15 February 2008, the IMO submitted a Rule Change Proposal regarding changes to clauses 2.30.4 and 2.30.5, and the addition of new clauses 2.30.1A and 4.23A.4 to the Wholesale Electricity Market Rules (Market Rules).

2.1.1. Submission Details

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Date submitted:	15/02/2008
Urgency:	Medium
Change Proposal title:	Capacity Credits and Facility Aggregation

2.2. Details of the Proposal

The IMO submitted that the current clause 4.23A.3 of the Market Rules provides that if, at any time, a Market Participant holds Capacity Credits with respect to an Aggregated Facility, for which aggregation is being revoked, and that Facility must be registered as more than one Registered Facility, then the IMO may re-allocate the Certified Reserve Capacity, Capacity Credits and Reserve Capacity Obligation Quantities from the Aggregated Facility to the Registered Facilities. This is subject to a number of conditions specified in clause 4.23A.3.

A number of Market Participants, holding Capacity Credits, have indicated that the efficiency of their operations would be enhanced if they were permitted to aggregate some of their facilities and the Capacity Credits assigned to those facilities. The Market Rules do not explicitly provide for this at present, especially with respect to facilities that have current Reserve Capacity Obligations. The IMO considered that, given that the Market Rules already provide for the "disaggregation" of Capacity Credits as a result of Facility disaggregation, it would be appropriate to allow the "aggregation" of Capacity Credits as a result of the IMO's approval of facility aggregation, and the IMO proposed to amend the Market Rules accordingly.

As with the existing clause 4.23A.3, a number of conditions would have to be attached to the new clause allowing the "aggregation" of Capacity Credits as a result of facility aggregation. Importantly, the information submitted with the application for certification of Reserve Capacity for the Registered Facilities must remain satisfactory at the time the IMO approves their aggregation as a single aggregated facility. The IMO noted that that information includes, amongst other things, evidence that the Facility is entitled to have network access for its total Certified Reserve Capacity.

Further, IMO submitted that in regard to aggregated facilities in general, it is important that the IMO and System Management can be provided with the same data for the individual facilities as before the aggregation, including in regard to fuel usage, and individual unit capabilities and characteristics. Therefore, it was proposed to amend clause 2.30.5 to allow the IMO to impose conditions related to the continued provision of individual unit data when making its decision on the aggregation. At its meeting in December 2007, the Market Advisory Committee (MAC) expressed concerns that an aggregated facility comprised of a liquid and a non-liquid plant could bid its entire capacity at above the non-liquid fuel price cap. The above amendment to clause 2.30.5 is aimed at addressing this issue by ensuring that such behaviour can be readily monitored by the IMO.

The IMO also proposed to limit the ability of a Rule Participant to aggregate a Facility only once in each Capacity Year to address an additional concern raised by MAC.

Further, the IMO proposed to amend clause 2.30.4 to also include the Network Operator as a party the IMO must consult with in regard to Facility aggregation. This will enable the Network Operator to provide the IMO with information regarding any network related issues in regard to the aggregation.

The changes proposed by the IMO are outlined in section 7 of this Report.

2.3. *The IMO's Initial Assessment of the Proposal*

The IMO decided to proceed with the proposal on the basis of its preliminary assessment, which indicated that the proposal was consistent with the Wholesale Market Objectives. This preliminary assessment was published in a Rule Change Notice on 20 February 2008.

3. SUBMISSIONS RECEIVED IN THE FIRST SUBMISSION PERIOD

The first submission period for this Rule Change Proposal was between 14 January 2008 and 25 February 2008. The IMO received one submission, from Landfill Gas & Power Pty Ltd (LGP), on the changes proposed by the IMO. The submission is summarised below, and the full text of the submission is available on the IMO website.

3.1. *Market Advisory Committee*

The Market Advisory Committee (MAC) was first advised of the proposed rule change at its meeting on 12 December 2007. At this meeting MAC raised concerns that an aggregated facility comprised of a liquid and a non-liquid plant could be allowed to bid above the normal price cap. MAC also proposed that a limit of one aggregation per year per facility be set in the rules, in order to avoid a facility aggregating and disaggregating numerous times over a capacity year.

The IMO amended its proposal to address the concerns raised by MAC. The IMO presented a revised discussion paper to MAC at its meeting on 13 February 2008. All members of MAC supported the Rule Change as revised by the IMO. No member expressed concerns with the proposed changes.

MAC members were also invited to discuss the proposal at the MAC meeting on 12 March 2008, after the proposal had been published on the IMO website. All members of MAC expressed their support for the Rule Change.

3.2. *Submission from Landfill Gas & Power Pty Ltd (LGP)*

LGP expressed its support for the Rule Change Proposal. In its submission LGP supported the IMO's contention that, by enhancing the efficiency of participant operations, the proposal would support market objective (d).

3.3. *Public Forums and Workshops*

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

4. THE IMO'S DRAFT DECISION

Based on the submissions received and its assessment against the Wholesale Market Objectives, the IMO's draft decision was to implement the amendments to clauses 2.30.4 and 2.30.5, and the new clauses 2.30.1A and 4.23A.4 of the Wholesale Electricity Market Rules as proposed by the IMO in its Rule Change Proposal and outlined in section 7 of this Report.

The IMO made its draft decision on the basis that the resulting Amending Rules would allow the Market Rules to better address the Wholesale Market Objectives.

5. SUBMISSIONS RECEIVED IN THE SECOND SUBMISSION PERIOD

Following the Draft Rule Change Report publication on the IMO website, the second submission period was between 17 April 2008 and 15 May 2008. The IMO received one submission, from Synergy. The submission is summarised below, and the full text of the submission is available on the IMO website.

5.1. *Submission from Synergy*

Synergy expressed its support for IMO's draft decision. Synergy submitted that it does not foresee any material adverse impacts of this rule change on Synergy's operations.

Synergy also submitted that it accepted the IMO's view that the proposal supports the operation of the Market Objectives.

6. THE IMO'S ASSESSMENT AND THE IMO'S FINAL DECISION

No interested party expressed concerns regarding the amendments to the Market Rules outlined in the Draft Rule Change Report. The IMO therefore considers that both the proposal and the IMO's draft decision have the support of the Participants in the Wholesale Electricity Market.

6.1. *The IMO's Assessment of the Rule Change Proposal*

According to clauses 2.4.2 of the Market Rules *"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"*.

The IMO considers that the proposed Amending Rules will have the following impact on how the Market Rules address the Wholesale Market Objectives:

Impact	Wholesale Market Objectives
Allow the Market Rules to better address objective	(a) and (d)
Consistent with objective	(b) (c) and (e)
Inconsistent with objective	

The IMO's assessment against market objectives (a) and (d) is as follows:

- (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 considers that enabling the aggregation of Capacity Credits as a result of the IMO approval of facility aggregation will enhance the efficiency of participant operations in certain circumstances and thus promote economic efficiency in the market.

The IMO considers that the proposed changes, therefore, will allow the Market rules to better address market objective (a).

Aspects of the proposal are intended to ensure that system reliability is maintained in the event Capacity Credits are allowed to be aggregated by the IMO. The proposal achieves this by ensuring that an aggregated facility will be required to provide the same total reserve capacity as before the aggregation.

- (d) *to minimise the long-term cost of electricity supplied to customers from the South West interconnected system*

Enhancing the efficiency of participant operations will assist in minimising the long-term cost of electricity supply.

The IMO considers that the proposed changes, therefore, will allow the Market rules to better address market objective (d). In its submission during the first submission period, Landfill Gas and Power supported this assessment.

In accordance with Clause 2.4.3(b) of the Market Rules, in deciding whether or not to make Amending Rules, the IMO must also have regard to the practicality and cost of implementing the Amending Rules.

The proposed rule changes will not require changes to the Wholesale Electricity Market System operated by the IMO. No other costs have been identified in relation to these changes during the submission process.

6.2. *The IMO's Final Decision*

The IMO's final decision is to implement the amendments to clauses 2.30.4 and 2.30.5, and the new clauses 2.30.1A and 4.23A.4 of the Wholesale Electricity Market Rules.

The IMO has made its draft decision on the basis that the resulting Amending Rules will allow the Market Rules to better address the Wholesale Market Objectives.

The wording of the relevant Amending Rules is presented in section 7 of this Report.

6.3. *Amending Rules Commencement*

The amendments to the Market Rules made from this Rule Change Proposal will commence at **08.00am** on **1 July 2008**.

7. AMENDING RULES

The following clauses are amended (~~deleted wording~~, new wording):

Clause 2.30.1A

2.30.1A. For each Capacity Year the IMO may only accept an application under clause 2.30.1 once with respect to each Facility.

Clause 2.30.4

2.30.4. The IMO must consult with System Management and the relevant Network Operator when assessing an application for Facility aggregation and inform the relevant Rule Participant whether the aggregation of the facilities is allowed.

Clause 2.30.5

2.30.5. The IMO must only allow the aggregation of facilities if, in its opinion:

- (a) the aggregation will not adversely impact on System Management's ability to maintain power system Security and Reliability;
- (b) adequate control and monitoring equipment exists for the aggregated Facility;
- (c) none of the Facilities within the aggregated facility are subject to an Ancillary Service Contract or Network Control Service Contract that requires that Facility not be part of an aggregated facility; ~~and~~
- (d) with the exception of facilities aggregated under clause 2.30.3, the aggregated facilities are at the same location or have the same Loss Factor; and
- (e) System Management and the IMO will continue to be provided with the same Standing Data for each individual facility as before the facilities were aggregated.

Clause 4.23A.4

4.23A.4. If at any time a Market Participant holds Capacity Credits with respect to Registered Facilities, for which the IMO has approved aggregation as a single aggregated facility in accordance with clause 2.30.7, then the IMO may re-allocate the Certified Reserve Capacity, Capacity Credits and Reserve Capacity Obligation Quantities of the Registered Facilities to the aggregated facility subject to the conditions that:

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- (a) the information submitted with the application for aggregation must demonstrate that the aggregated facility can at all times meet the sum of the full Reserve Capacity Obligation Quantities of the Registered Facilities;
- (b) the IMO must allocate to the aggregated facility the Certified Reserve Capacity, Capacity Credits and Reserve Capacity Obligation Quantity it can provide based on information provided in the original application for Certified Reserve Capacity for the Registered Facilities;
- (c) after the re-allocation the Certified Reserve Capacity, the number of Capacity Credits and the Reserve Capacity Obligation Quantities of the aggregated facility must equal the sum of the Certified Reserve Capacities, the total number of Capacity Credits, and the sum of the Reserve Capacity Obligation Quantities originally held by the Registered Facilities; and
- (d) the Capacity Credits and the Reserve Capacity Obligation Quantities of the aggregated facility must at all times be capable of being disaggregated in accordance with clause 4.23A.3.

8. GENERAL INFORMATION ABOUT RULE CHANGE PROPOSALS

Clause 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 submitting this to the Independent Market Operator (IMO).

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
- (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. Under the shorter fast track process the IMO consults with Rule Participants who either advise the IMO that they wish to be consulted or the IMO considers have an interest in the change.