



Independent Market Operator

**Final Market Rule Change
Report**

Title: Reserve Capacity Security

Ref: RC_2008_30

Date: 16 January 2009

Contents

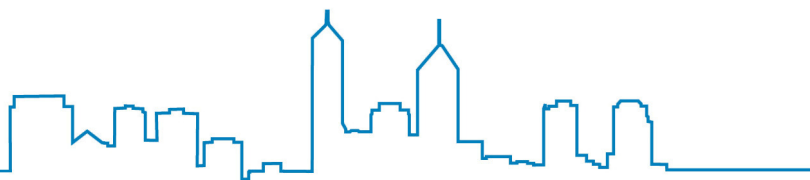
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DOCUMENT DETAILS

IMO Notice No.: RC_2008_30
Report Title: Reserve Capacity Security
Release Status: Public
Confidentiality Status: Public domain
Published in accordance with Market Rule 2.7.8

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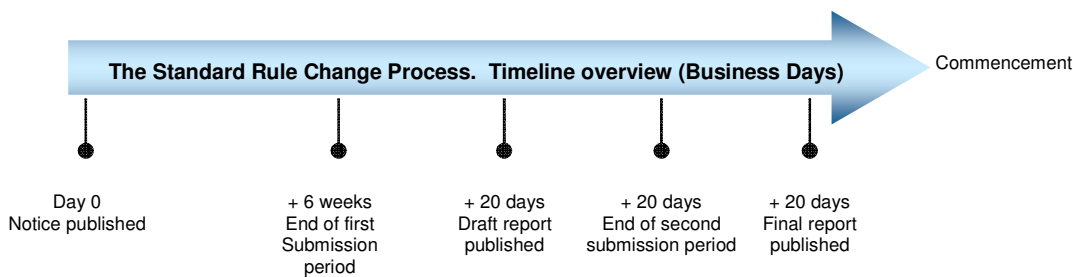


1. INTRODUCTION

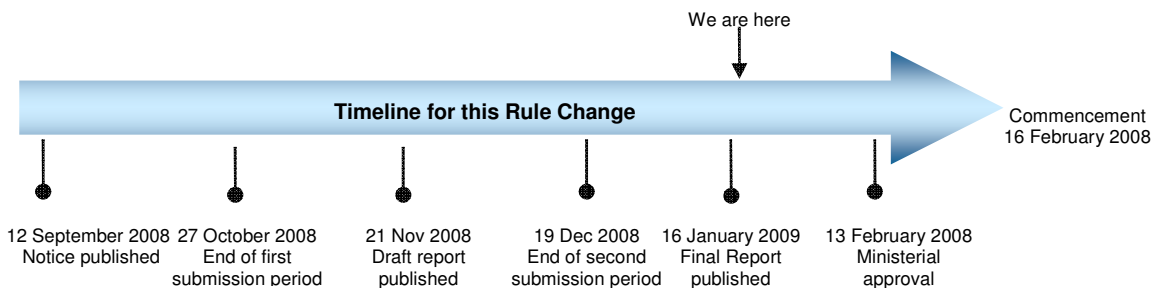
On 11 September 2008, the Independent Market Operator (IMO) submitted a Rule Change Proposal regarding changes to clauses 4.13.1, 4.13.10 and 4.13.11 of the Wholesale Electricity Market Rules (Market Rules), and the addition of new clauses 4.13.10A, 4.13.11A, and 4.13.11B to the Market Rules.

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

The standard process adheres to the following timelines:



The key dates in processing this Rule Change Proposal are:



Based on IMO's assessment of the Rule Change Proposal against the Market Objectives, the practicality and cost of implementing the proposal, views of the MAC and the submissions received, the IMO's final decision is to implement the Rule Change Proposal in the form outlined in section 8 of this Report.

This Final Rule Change Report on the Rule Change Proposal has been prepared by the IMO in accordance with clause 2.7.8 of the Market Rules.

The amendments to the Market Rules made as a result of this Rule Change Proposal will commence at 08.00am on 16 February 2009.

2. THE RULE CHANGE PROPOSAL

2.1 Submission Details

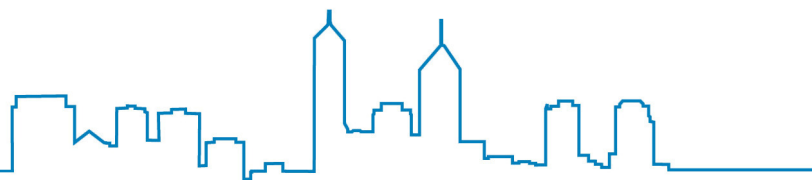
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Date submitted:	11 September 2008
Urgency:	<i>Medium</i>
Change Proposal title:	Reserve Capacity Security

2.2 Details of the Proposal

The IMO's proposed changes aimed to improve the efficiency of the provisions regarding administering the return of Reserve Capacity Security. The changes also aimed to improve the clarity of the provisions in order to remove doubt as to whether Reserve Capacity Security should apply to facility upgrade projects and DSM programmes; and whether provisions are administered to achieve the intent of the Market Rules.

The IMO stated that the current Market Rules require the IMO to determine, within five business days, that the requirement to hold Reserve Capacity Security in respect of a Facility has ceased. This places an obligation on the IMO to monitor the Meter Data for each Facility for every trading interval and to make a determination within five business days whether the Facility has met its Reserve Capacity Obligation quantity. The proposed rule change addresses this problem by extinguishing the obligation to hold Reserve Capacity Security upon receipt (and appropriate processing) of a request made by the Market Participant to the IMO.

The IMO also proposed that the time required for the IMO to process applications for having Reserve Capacity Security returned should be extended from five business days to ten. In practice, the IMO may receive Meter Data for a Facility a number of days after the trading day. Further time is then required to analyse the data and make a determination as to whether Reserve Capacity Security is no longer required. The final step is to organise for approvals and release of the Reserve Capacity Security documents from the bank. It is simply not practical to return Reserve Capacity Security within five business days.



The IMO proposed to improve the clarity of clause 4.13.10(b) as it could be interpreted as allowing a Participant to claim it has met its Reserve Capacity obligations and be entitled to the return of its Reserve Capacity Security based on adjustments made in response to forced outages. While such an interpretation is unlikely, it is certainly not the intent of the Market Rules and, therefore, the IMO sought to remove any potential ambiguity.

2.3 The Proposal and the Wholesale Market Objectives

The IMO's submission regarding how the amendments will allow for the Market Rules to better address the market objectives can be found in section 6.1 of this report.

2.4 The Amending Rules Proposed by the IMO

The IMO proposed the following amendments to the Market Rules (~~deleted words~~, added words):

4.13. Reserve Capacity Security

4.13.1. Where the IMO assigns Certified Reserve Capacity to a Facility (which for the purposes of this clause 4.13 includes part of a Facility and a Demand Side Programme) that is yet to be commissioned, the relevant Market Participant must ensure that the IMO holds the benefit of a Reserve Capacity Security in an amount not less than the amount determined under clause 4.13.2 by the date and time specified in clause 4.1.13 for the Reserve Capacity Cycle to which the Certified Reserve Capacity relates.

4.13.10. ~~Unless clause 4.13.11 applies,~~ A Market Participant is no longer required to ensure that the IMO holds the benefit of a Reserve Capacity Security after:

~~the IMO must notify any Market Participant that has provided the IMO with a Reserve Capacity Security for a Facility that the need to maintain that Reserve Capacity Security has ceased, and must refund any Reserve Capacity Security which is in the form of a cash deposit (plus interest earned on that cash deposit) no later than five Business Days following:~~

- (a) ~~the time and date specified in clause 4.1.21,~~ in the case of a Reserve Capacity Security relating to a Facility that provides no Capacity Credits (as notified by the relevant Market Participant under clause 4.20) the time and date specified in clause 4.1.21;
- (b) ~~in respect~~ the case of a new Facility that satisfies 100% of its Reserve Capacity Obligation Quantity for the Facility (as determined under clause 4.12.4 and before any adjustment made under clause 4.12.6) in at least one Trading Interval when the Reserve Capacity Obligation Quantity

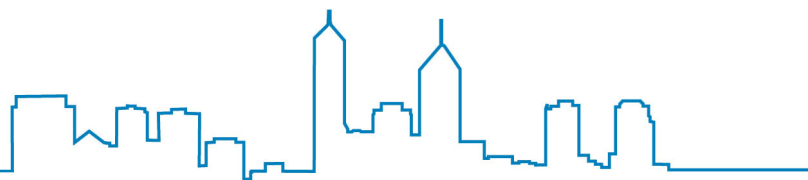
exceeds 0 MW occurring between the date from which Reserve Capacity Obligations apply in accordance with clause 4.1.26 and the day from which Reserve Capacity Obligations cease to apply in accordance with clause 4.1.30 in respect of the Reserve Capacity Cycle, the later of:

- i. the date from which Reserve Capacity Obligations apply in accordance with clause 4.1.26 in respect of the Reserve Capacity Cycle;
 - ii. the first day on which a new Facility first satisfies its Reserve Capacity Obligations under clause 4.12.1(a) or (b) (as applicable) in respect of the Reserve Capacity Cycle.
- (c) in ~~respect the case~~ of a new Facility to which none of (a), (b), or clause 4.13.11 relate, the day from which Reserve Capacity Obligations cease to apply in accordance with clause 4.1.30 in respect of the Reserve Capacity Cycle.

4.13.10A Where a Market Participant considers that clause 4.13.10 applies to it in relation to a Facility, the Market Participant may request the IMO to release the relevant Reserve Capacity Security. Within 10 Business Days after receiving such a request the IMO must:

- (a) determine whether the need to maintain the Reserve Capacity Security has ceased;
- (b) notify the Market Participant of its determination; and
- (c) if the Reserve Capacity Security is a cash deposit that is no longer required to be held, refund the cash deposit (plus interest earned).

~~4.13.11. If a Market Participant provides a Reserve Capacity Security in respect of a Facility under this clause 4.13, and the relevant Facility does not operate at a level (expressed in MWh) that is at least 90% of one-half of the Reserve Capacity Obligation Quantity for the Facility (expressed in MW), in at least one Trading Interval when the Reserve Capacity Obligation Quantity exceeds 0 MW occurring between the date from which Reserve Capacity Obligations apply in accordance with clause 4.1.26 and the day from which Reserve Capacity Obligations cease to apply in accordance with clause 4.1.30 in respect of the Reserve Capacity Cycle, then the Market Participant must pay to the IMO, as compensation to the market, an amount equal to the Reserve Capacity Security amount, which obligation may be satisfied by the IMO drawing upon the Reserve Capacity Security, and applying the amount claimed (after meeting the IMO's costs associated with doing so) so as to:~~



- ~~(a) firstly, offset the cost of funding Supplementary Capacity Contracts for any capacity shortage stemming entirely or in part from the Facility not being available; and~~
- ~~(b) secondly, once all costs to which paragraph (a) refers are covered, make a rebate payment to Market Customers in proportion to their Individual Reserve Capacity Requirements during the Trading Month in accordance with Chapter 9.~~

4.13.11. A Market Participant that provides a Reserve Capacity Security in respect of a Facility under this clause 4.13 must operate the Facility at a level (expressed in MWh) that is at least 90% of one-half of the Reserve Capacity Obligation Quantity for the Facility (as determined under clause 4.12.4 and before any adjustment made under clause 4.12.6, expressed in MW) in at least one Trading Interval when the Reserve Capacity Obligation Quantity exceeds 0 MW. The Trading Interval must fall between the date from which Reserve Capacity Obligations apply in accordance with clause 4.1.26 and the day from which Reserve Capacity Obligations cease to apply in accordance with clause 4.1.30 in respect of the Reserve Capacity Cycle.

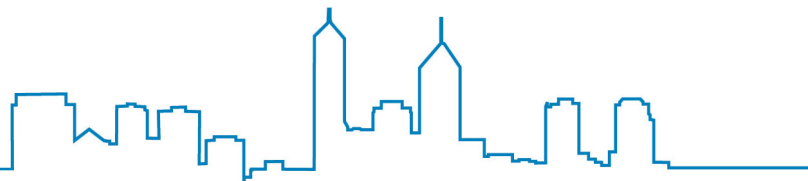
4.13.11A If a Market Participant fails to operate a Facility in accordance with clause 4.13.11, then the Market Participant must pay to the IMO, as compensation to the market, an amount equal to the Reserve Capacity Security amount for that Facility.

4.13.11B The payment obligation under clause 4.13.11A may be satisfied by the IMO drawing upon the Reserve Capacity Security for the Facility, and applying the amount claimed (after meeting the IMO's costs associated with doing so) so as to:

- (a) firstly, offset the cost of funding Supplementary Capacity Contracts for any capacity shortage stemming entirely or in part from the Facility not being available; and
- (b) secondly, once all costs to which paragraph (a) refers are covered, make a rebate payment to Market Customers in proportion to their Individual Reserve Capacity Requirements during the Trading Month in accordance with Chapter 9.

2.5 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 12 September 2008.



3. FIRST SUBMISSION PERIOD

The first submission period for this Rule Change Proposal was between 15 September 2008 and 27 October 2008.

3.1 *Market Advisory Committee*

The MAC was first advised of the proposed Rule Change at its meeting on 10 September 2008, before it was formally submitted by the IMO. At the meeting, MAC was in general support of the proposal and of the IMO submitting it as a formal Rule Change Proposal.

MAC members were also invited to discuss the proposal at the MAC meeting on 8 October 2008, after the proposal had been published on the IMO website. All members of MAC expressed their support for the proposed Rule Change.

3.2 *Submissions Received*

During the first public submission period the IMO received submissions from Alinta, Energy Response, Landfill Gas & Power (LGP), Perth Energy, and Synergy. The details of the submissions received during the first submission period are summarised below. The full text of the public submissions is also available on the IMO web site.

3.2.1 *Submission from Alinta*

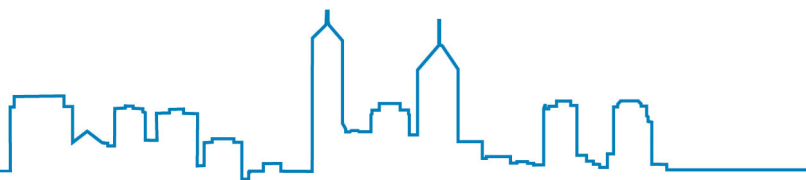
Alinta agreed with the proposed Rule Change on the grounds that it will lessen the administrative burden placed upon the IMO with minimal or no impact on individual participants or the market as a whole. Additionally, they submitted that the proposed Rule Change seeks to facilitate a sensible interpretation of the Market Rules. For these reasons, Alinta viewed that the Rule Change Proposal would promote achievement of objective (a) of the Market Rules, and not act as an impediment to the achievement of any of the other market objectives.

3.2.2 *Submission from Energy Response*

Energy Response supported the IMO's proposed Rule Change. However they stated that they would also like to see:

- i) That the Reserve Capacity Security may be provided via a bank guarantee and/or cash deposit (i.e. combinations of both would be allowed)
- ii) That an end date for bank guarantees be provided

Energy Response construed that the greater flexibility provided will simplify the Reserve Capacity Security requirements allowing the applicant to make their arrangements in a variety of ways, each providing a secure and positive outcome. Giving a known end date will greatly assist applying for bank guarantees.



3.2.2.1 The IMO's response to Energy Response

In reply to Energy Response's suggestions, the IMO noted that they are looking at this as a part of an ongoing broad review of Prudential requirements.

3.2.3 Submission from Landfill Gas and Power

LGP submitted that it supported the proposed Rule Change on the following grounds:

- i) it is more appropriate for the market participant to apply to the IMO for release of its security deposit rather than the IMO actively monitoring the operation; and
- ii) the IMO needs sufficient time to investigate the participant's application for return of the security; and
- iii) the Market Rules should also capture DSM and the incremental part of new facilities rather than the entire facility.

3.2.4 Submission from Perth Energy

Discussions were held between the IMO and Perth Energy during the first submission period to clarify some points raised by Perth Energy with regard to the proposed Rule Change. As an outcome of these discussions the IMO agreed that the Amending Rules should be changed to provide further clarification with respect to:

- i) The circumstances under which Reserve Capacity Security will be returned;
- ii) The timeframe within which it will be returned; and
- iii) Return of Security that is in the form of a guarantee.

The submission received from Perth Energy provided support for the further proposed changes to the Amending Rules. They are as follows (~~deleted words~~, added words):

4.13. Reserve Capacity Security

4.13.1. Where the IMO assigns Certified Reserve Capacity to a Facility (which for the purposes of this clause 4.13 includes part of a Facility and a Demand Side Programme) that is yet to be commissioned, the relevant Market Participant must ensure that the IMO holds the benefit of a Reserve Capacity Security in an amount not less than the amount determined under clause 4.13.2 by the date and time specified in clause 4.1.13 for the Reserve Capacity Cycle to which the Certified Reserve Capacity relates.

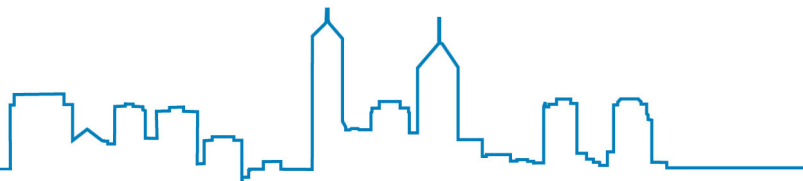
4.13.10. ~~Unless clause 4.13.11 applies,~~ A Market Participant is no longer required to ensure that the IMO holds the benefit of a Reserve Capacity Security after:

~~the IMO must notify any Market Participant that has provided the IMO with a Reserve Capacity Security for a Facility that the need to maintain that Reserve Capacity Security has ceased, and must refund any Reserve Capacity Security which is in the form of a cash deposit (plus interest earned on that cash deposit) no later than five Business Days following:~~

- ~~(a) the time and date specified in clause 4.1.21, in the case of a Reserve Capacity Security relating to a Facility that provides no Capacity Credits (as notified by the relevant Market Participant under clause 4.20) the time and date specified in clause 4.1.21;~~
- ~~(b) in respect the case of a new Facility that satisfies 100% of its Reserve Capacity Obligation Quantity for the Facility (as determined under clause 4.12.4 and before any adjustment made under clause 4.12.6) in at least one Trading Interval when the Reserve Capacity Obligation Quantity exceeds 0 MW occurring between the date from which Reserve Capacity Obligations apply in accordance with clause 4.1.26 and the day from which Reserve Capacity Obligations cease to apply in accordance with clause 4.1.30 in respect of the Reserve Capacity Cycle, the later of:
 - i. the date from which Reserve Capacity Obligations apply in accordance with clause 4.1.26 in respect of the Reserve Capacity Cycle;
 - ii. the first day on which a new Facility first satisfies its Reserve Capacity Obligations under clause 4.12.1(a) or (b) (as applicable) in respect of the Reserve Capacity Cycle.~~
- ~~(c) in respect the case of a new Facility to which none of (a), (b), or clause 4.13.11 relate, the day from which Reserve Capacity Obligations cease to apply in accordance with clause 4.1.30 in respect of the Reserve Capacity Cycle.~~

4.13.10A Where a Market Participant considers that clause 4.13.10 applies to it in relation to a Facility, the Market Participant may request the IMO to release the relevant Reserve Capacity Security. Within 10 Business Days after receiving such a request the IMO must:

- (a) determine whether the need to maintain the Reserve Capacity Security has ceased;
- (b) notify the Market Participant of its determination; and
- (c) if the Reserve Capacity Security is a cash deposit that is no longer required to be held, refund the cash deposit (plus interest earned).



~~4.13.11. If a Market Participant provides a Reserve Capacity Security in respect of a Facility under this clause 4.13, and the relevant Facility does not operate at a level (expressed in MWh) that is at least 90% of one-half of the Reserve Capacity Obligation Quantity for the Facility (expressed in MW), in at least one Trading Interval when the Reserve Capacity Obligation Quantity exceeds 0 MW occurring between the date from which Reserve Capacity Obligations apply in accordance with clause 4.1.26 and the day from which Reserve Capacity Obligations cease to apply in accordance with clause 4.1.30 in respect of the Reserve Capacity Cycle, then the Market Participant must pay to the IMO, as compensation to the market, an amount equal to the Reserve Capacity Security amount, which obligation may be satisfied by the IMO drawing upon the Reserve Capacity Security, and applying the amount claimed (after meeting the IMO's costs associated with doing so) so as to:~~

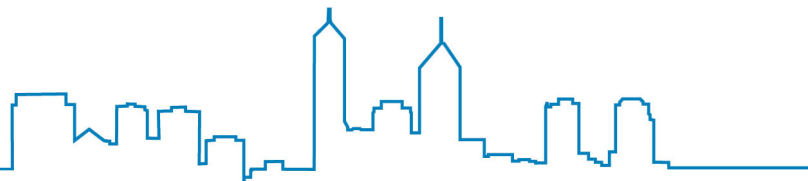
- ~~(a) firstly, offset the cost of funding Supplementary Capacity Contracts for any capacity shortage stemming entirely or in part from the Facility not being available; and~~
- ~~(b) secondly, once all costs to which paragraph (a) refers are covered, make a rebate payment to Market Customers in proportion to their Individual Reserve Capacity Requirements during the Trading Month in accordance with Chapter 9.~~

4.13.11. If a Market Participant that provides a Reserve Capacity Security in respect of a Facility under this clause 4.13 operates the Facility:

- (a) at a level (expressed in MWh) that is at least 90% of one-half of the Reserve Capacity Obligation Quantity for the Facility (as determined under clause 4.12.4 and before any adjustment made under clause 4.12.6, expressed in MW) in at least one Trading Interval when the Reserve Capacity Obligation Quantity exceeds 0 MW; and
- (b) the Trading Interval falls between the date from which Reserve Capacity Obligations apply in accordance with clause 4.1.26 and the day from which Reserve Capacity Obligations cease to apply in accordance with clause 4.1.30 in respect of the Reserve Capacity Cycle,

then the IMO will return the Reserve Capacity Security to the Market Participant within 20 Business Days after the end of the relevant Capacity Year.

4.13.11A If a Market Participant fails to operate a Facility in accordance with clause 4.13.11, then the Market Participant must pay to the IMO, as compensation to the market, an amount equal to the Reserve Capacity Security amount for that Facility.



4.13.11B The payment obligation under clause 4.13.11A may be satisfied by the IMO drawing upon the Reserve Capacity Security for the Facility, and applying the amount claimed (after meeting the IMO's costs associated with doing so) so as to:

- (a) firstly, offset the cost of funding Supplementary Capacity Contracts for any capacity shortage stemming entirely or in part from the Facility not being available; and
- (b) secondly, once all costs to which paragraph (a) refers are covered, make a rebate payment to Market Customers in proportion to their Individual Reserve Capacity Requirements during the Trading Month in accordance with Chapter 9.

3.2.5 Submission from Synergy

Synergy agreed with the IMO that it is not practical for the IMO to continuously monitor each facility and then to make a determination within five business days. Synergy supported a change of methodology such that the Market Participant must request the IMO to return the Reserve Capacity Security and that a longer period of time than the previously prescribed five days was required to facilitate such a transaction. Furthermore, Synergy agreed with the IMO that it is more economically efficient to limit the Reserve Capacity Security associated with upgrades to the upgrade itself, not the full capacity of the Facility.

Synergy noted that the proposal would provide clarity to the interpretation and application of the Market Rules associated with the provision of Reserve Capacity Security. Synergy accepted the IMO's view that the proposed Rule Change supported the operation of the market objectives. Specifically, Synergy viewed that the proposal supports market objective (a) by promoting the economically efficient supply of electricity in the South West Interconnected System.

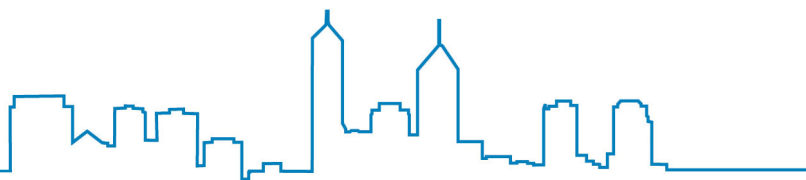
3.3 Public Forums and Workshops

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

4. THE IMO'S DRAFT DECISION

The IMO's draft decision was to implement the Rule Change Proposal as proposed by the IMO and further amended following discussions with Perth Energy during the first submission period. The IMO made its draft decision on the basis that the resulting Amending Rules allowed the Market Rules to better address the Wholesale Market Objectives.

The wording of the relevant Amending Rules is presented in section 8 of this Report.



5. SECOND SUBMISSION PERIOD

Following the Draft Rule Change Report publication on the IMO website, the second submission period was between 24 November 2008 and 19 December 2008. The IMO did not receive any formal submissions during this period.

6. THE IMO'S FINAL ASSESSMENT

In preparing this 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. This is outlined in the following sections.

6.1 Market Objectives

According to clause 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
Consistent with objective	b, c, d , and e
Inconsistent with objective	-

The IMO's assessment against objective (a) 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;*

This proposal will help improve reliability and security of supply in regard to new facilities that are entering the Wholesale Electricity Market. This will be accomplished by improving clarity in the processes of the Reserve Capacity Mechanism. In their submissions, Alinta and Synergy both supported this contention.

The IMO submits that the proposal is consistent with the remaining market objectives.

6.2 Practicality and cost of implementation

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 changes do not require any change to the Wholesale Electricity Market Systems operated by the IMO. No other costs have been identified in relation to the implementation of the proposed changes.

6.3 Views expressed in submissions

In accordance with Clause 2.4.3(c) of the Market Rules, in deciding whether or not to make Amending Rules, the IMO must have regard to the views expressed in submissions on the Rule Change Proposal.

The proposed changes had the support of all submitters in the first round of consultation, albeit with some amendments to the proposed wording of the proposal. 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.

7. THE IMO'S FINAL DECISION

The IMO's final decision is to implement the proposed amendments to the provisions in respect of the return of Reserve Capacity Security as outlined in its Draft Rule Change Report.

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

The wording of the relevant Amending Rules is provided in section 8 of this report.

7.1 Amending Rules Commencement

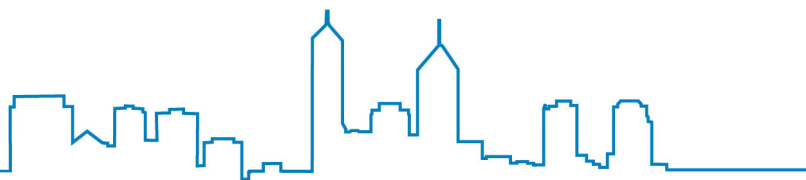
The Amending Rules resulting from this Rule Change Proposal will commence at 8:00am on 16 February 2009.

8. AMENDING RULES

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

4.13. Reserve Capacity Security

- 4.13.1. Where the IMO assigns Certified Reserve Capacity to a Facility (which for the purposes of this clause 4.13 includes part of a Facility and a Demand Side Programme) that is yet to be commissioned, the relevant Market Participant must ensure that the IMO holds the benefit of a Reserve Capacity Security in an amount not less than the amount determined under clause 4.13.2 by the date and time



specified in clause 4.1.13 for the Reserve Capacity Cycle to which the Certified Reserve Capacity relates.

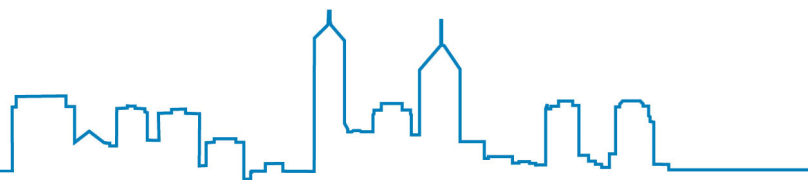
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~~the IMO must notify any Market Participant that has provided the IMO with a Reserve Capacity Security for a Facility that the need to maintain that Reserve Capacity Security has ceased, and must refund any Reserve Capacity Security which is in the form of a cash deposit (plus interest earned on that cash deposit) no later than five Business Days following:~~

- (a) ~~the time and date specified in clause 4.1.21, in the case of a Reserve Capacity Security relating to a Facility that provides no Capacity Credits (as notified by the relevant Market Participant under clause 4.20) the time and date specified in clause 4.1.21;~~
- (b) ~~in respect the case of a new Facility that satisfies 100% of its Reserve Capacity Obligation Quantity for the Facility (as determined under clause 4.12.4 and before any adjustment made under clause 4.12.6) in at least one Trading Interval when the Reserve Capacity Obligation Quantity exceeds 0 MW occurring between the date from which Reserve Capacity Obligations apply in accordance with clause 4.1.26 and the day from which Reserve Capacity Obligations cease to apply in accordance with clause 4.1.30 in respect of the Reserve Capacity Cycle, the later of:~~
 - i. the date from which Reserve Capacity Obligations apply in accordance with clause 4.1.26 in respect of the Reserve Capacity Cycle;
 - ii. the first day on which a new Facility first satisfies its Reserve Capacity Obligations under clause 4.12.1(a) or (b) (as applicable) in respect of the Reserve Capacity Cycle.
- (c) ~~in respect the case of a new Facility to which none of (a), (b), or clause 4.13.11 relate, the day from which Reserve Capacity Obligations cease to apply in accordance with clause 4.1.30 in respect of the Reserve Capacity Cycle.~~

4.13.10A Where a Market Participant considers that clause 4.13.10 applies to it in relation to a Facility, the Market Participant may request the IMO to release the relevant Reserve Capacity Security. Within 10 Business Days after receiving such a request the IMO must:

- (a) determine whether the need to maintain the Reserve Capacity Security has ceased;



(b) notify the Market Participant of its determination; and

(c) if the Reserve Capacity Security is a cash deposit that is no longer required to be held, refund the cash deposit (plus interest earned).

~~4.13.11. If a Market Participant provides a Reserve Capacity Security in respect of a Facility under this clause 4.13, and the relevant Facility does not operate at a level (expressed in MWh) that is at least 90% of one-half of the Reserve Capacity Obligation Quantity for the Facility (expressed in MW), in at least one Trading Interval when the Reserve Capacity Obligation Quantity exceeds 0 MW occurring between the date from which Reserve Capacity Obligations apply in accordance with clause 4.1.26 and the day from which Reserve Capacity Obligations cease to apply in accordance with clause 4.1.30 in respect of the Reserve Capacity Cycle, then the Market Participant must pay to the IMO, as compensation to the market, an amount equal to the Reserve Capacity Security amount, which obligation may be satisfied by the IMO drawing upon the Reserve Capacity Security, and applying the amount claimed (after meeting the IMO's costs associated with doing so) so as to:~~

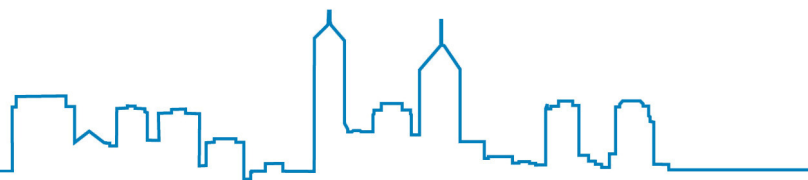
~~(a) firstly, offset the cost of funding Supplementary Capacity Contracts for any capacity shortage stemming entirely or in part from the Facility not being available; and~~

~~(b) secondly, once all costs to which paragraph (a) refers are covered, make a rebate payment to Market Customers in proportion to their Individual Reserve Capacity Requirements during the Trading Month in accordance with Chapter 9.~~

4.13.11. If a Market Participant that provides a Reserve Capacity Security in respect of a Facility under this clause 4.13 operates the Facility:

(a) at a level (expressed in MWh) that is at least 90% of one-half of the Reserve Capacity Obligation Quantity for the Facility (as determined under clause 4.12.4 and before any adjustment made under clause 4.12.6, expressed in MW) in at least one Trading Interval when the Reserve Capacity Obligation Quantity exceeds 0 MW; and

(b) the Trading Interval falls between the date from which Reserve Capacity Obligations apply in accordance with clause 4.1.26 and the day from which Reserve Capacity Obligations cease to apply in accordance with clause 4.1.30 in respect of the Reserve Capacity Cycle,



then the IMO will return the Reserve Capacity Security to the Market Participant within 20 Business Days after the end of the relevant Capacity Year.

4.13.11A If a Market Participant fails to operate a Facility in accordance with clause 4.13.11, then the Market Participant must pay to the IMO, as compensation to the market, an amount equal to the Reserve Capacity Security amount for that Facility.

4.13.11B The payment obligation under clause 4.13.11A may be satisfied by the IMO drawing upon the Reserve Capacity Security for the Facility, and applying the amount claimed (after meeting the IMO's costs associated with doing so) so as to:

(a) firstly, offset the cost of funding Supplementary Capacity Contracts for any capacity shortage stemming entirely or in part from the Facility not being available; and

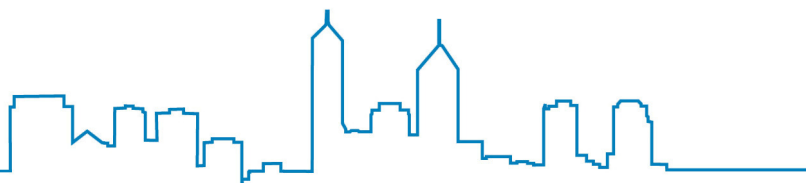
(b) secondly, once all costs to which paragraph (a) refers are covered, make a rebate payment to Market Customers in proportion to their Individual Reserve Capacity Requirements during the Trading Month in accordance with Chapter 9.

9. 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.

