



Independent Market Operator

Rule Change Notice

**Title: Under Construction for
the Reserve Capacity
Mechanism**

Ref: RC_2009_07

Standard Rule Change Process

Date: 19 March 2009

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1. THE RULE CHANGE PROPOSAL

1.1. The Submission

On 17 March 2009 the Independent Market Operator (IMO) submitted a Rule Change Proposal regarding amendments to clauses 4.2.7 and 4.14.6 and Appendix 3 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.

1.1.1 Submission details

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Date submitted:	17 March 2009
Urgency:	Medium
Change Proposal title:	Under Construction for the Reserve Capacity Mechanism
Market Rule(s) affected:	4.2.7, 4.14.6 and Appendix 3

1.2. Details of the Proposal

A key objective for the Wholesale Electricity Market is to ensure that electricity is provided reliably as well as economically. This is a particularly significant issue in Western Australia because the electricity system is isolated and supplies cannot be drawn from neighbouring systems.

Reliability is achieved through the Reserve Capacity Mechanism (RCM). 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 facilitates the provision of this to the market.

The reliability of the SWIS depends on generators and DSM providers actually delivering the capacity that they have offered. The IMO undertakes a process of certification through which it satisfies itself that, among other things:

- The Facility will be able to deliver the quantity of capacity that is being offered; and
- If the Facility is yet to enter service, that it will be able to supply power into the SWIS by the date claimed.

Facilities that are certified may apply to the IMO for Capacity Credits. The IMO assigns Capacity Credits following the priority rules set out in Appendix 3 of the Market Rules. In assigning Capacity Credits to Facilities under the RCM, the IMO must make a determination of the status of a Facility. In the case of Facilities yet to enter service, a Facility may be in either *proposed* status or *under construction*. It has been found that the term *under construction* may not be optimal or broad enough for the full range of projects being considered or may be considered in the future.

Under construction implies the Facility is in the progress of physically being constructed. Facilities with short lead times may be constructed within 12 - 18 months, for example, and would not be under construction two years in advance of the start of the relevant Capacity Year when the IMO assigns Capacity Credits.

Another example is a Market Participant seeking Certified Reserve Capacity (CRC) and Capacity Credits for a Facility upgrade. Construction in this case is not necessarily required, only the ability for the relevant Facility to complete the upgrade during planned maintenance periods. Although these Facilities are fully committed at the time of application and in all other ways able to qualify for Capacity Credit assignment, a broader definition of this class is warranted.

In its Rule Change Proposal the IMO submitted to amend the Market Rules and replace the word *under construction* with *committed*. The assessment criteria to enable the IMO to determine whether a Facility is *committed* will be included in the Market Procedure for Declaration of Bilateral Trades and the Reserve Capacity Auction, given this it should still be noted that there are a number of factors the IMO will need to take into account when undertaking its assessment. The definition of *committed* (changes from the current definition of *under construction* are underlined) is proposed to be:

Factors which will be taken into consideration when assessing whether a project is 'Committed' include:

- *Financial commitment by the Rule Participant to the primary equipment supplier. (This would usually take the form of a signed contract indicating purchase of the main plant equipment including penalty clauses associated with non-compliance of the purchase agreement).*
- *Formal commitment, including financial approval, on behalf of the company in respect of the project, for example Board approval;*

- Details of planning, construction and environmental applications, approvals and licences;
- Access to land either through ownership or an appropriate leasing agreement;
- A signed contract for civil works (or appropriate alternative), including contractual delivery times, which indicate the construction phase has started; and
- Where a facility is being built primarily to supply energy to one or more foundation customers, evidence that relevant power supply contracts are in place.

The proposed changes will help to remove any uncertainty around the order which offers for Capacity Credits relating to these projects will be accepted in Appendix 3 of the Market Rules.

1.3. The Proposal and the Wholesale Market Objectives

- (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;

The IMO submits that the proposed changes, which replacing the term *under construction* with *committed*, will support Market Objective (c) by allowing committed projects with lead times of under two years (for which construction has not begun at the time of application) for example small diesel generators, to be assigned Capacity Credits under step 2A in Appendix 3 of the Market Rules.

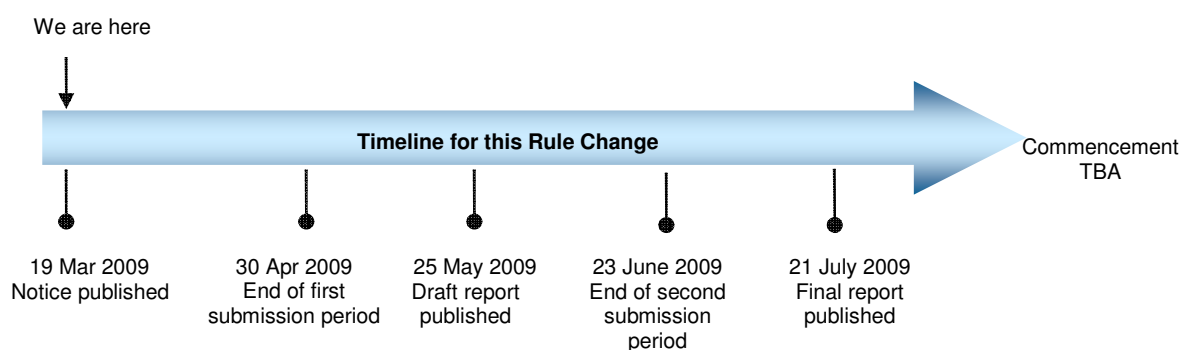
The IMO considers that the proposal is consistent with the other market objectives.

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 proposed amendments need to be implemented before the application process for CRC closes in August 2009, so as to provide adequate signals to entrants within the RCM. The Standard Rule Change Process will be adequate to process this change.

The projected timelines for processing this proposal are:



3. CALL FOR SUBMISSIONS

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 **Thursday 30 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):

4.2.7. By the date and time specified in clause 4.1.6, the IMO must publish the following information:

- (a) the number of Expression of Interests received;

- (b) based on the Expression of Interests, the additional Reserve Capacity potentially available, categorised as:
 - i. capacity associated with Facilities that are ~~under construction~~ committed; and
 - ii. capacity associated with Facilities that are yet to commence being constructed, where this capacity is to be further categorised between new Facilities for which:
 - 1. an offer by the relevant Network Operator to enter into an Arrangement for Access (“**Access Offer**”) has been made and all necessary Environmental Approvals granted;
 - 2. applications for both Access Offers and Environmental Approvals have been made and one or both are being processed;
 - 3. no Access Offer has been applied for or some or all Environmental Approvals have not been applied for;

4.14.6. If two or more Facilities cannot simultaneously exist (for example, because more than one Market Participant is proposing to build a Facility that will be located at the same site,) then the IMO cannot accept a non-zero value provided in accordance with clause 4.14.1(c) in respect of more than one of these Facilities and must reject all but one Facility based on the following criteria:

- (a) Facilities that are operational or are ~~under construction~~ committed will be accepted ahead of other Facilities; then
- (b) if more than one Facility remains, then Facilities that can demonstrate having secured financing will be accepted ahead of other Facilities; then
- (c) if more than one Facility remains, then Facilities with the greatest quantity of Certified Reserve Capacity will be accepted ahead of Facilities with lower Certified Reserve Capacity; then

Appendix 3: Reserve Capacity Auction & Trade Methodology

The algorithm is as follows:

Step 1: Start with a = 1

Step 2: Let the set of active offers comprise all offers from Availability Class “a”.

Step 2A: In the case of bilateral trade offers, accept offers from operating facilities and committed facilities ~~under construction~~ and remove them from the set of active offers.

Step 3: Accept offers from the set of active offers in order of

- In the case of testing bilateral schedules, decreasing availability.
- In the case of the reserve capacity auction, increasing price

until the capacity requirements of Availability Class “a” are fully covered or until there are no offers left unaccepted in the set of active offers.

Where two or more offers are tied with respect to the selection criteria such that accepting all but one of them would result in the total capacity selected exceeding the total capacity requirement of the Availability Class then the tied offers are to be accepted according to the following rules until the tie is resolved.

- In the case of the reserve capacity auction, offers from operating facilities and committed facilities ~~under construction~~ are to be accepted ahead of facilities that are not committed yet to commence construction; then
- Offers are to be accepted in decreasing order of capacity offered; then
- Offers for capacity that was included in an Expression of Interest are to be accepted ahead of capacity that was not; then
- Offers are to be accepted in the order of the time the offers were received, with the earlier offer being taken first; and then
- Offers are to be accepted in the order the capacity secured Certified Reserve Capacity;

...

Step 11: End.

In the case of the auction only:

- While leaving the Reserve Capacity Price unchanged, the IMO must exchange one or more offers not accepted for one or more offers accepted in the auction if
 - the total capacity scheduled in the auction exceeds the Reserve Capacity Auction Requirement by more than 100 MW;
 - the Reserve Capacity Price exceeds zero,
 - the exchange produces the maximum possible reduction in the total value of offers accepted;

- the exchange does not create an overall Reserve Capacity shortfall where none existed;
- in the event that a capacity shortfall exists in one or more Availability Classes, the exchange will not shift a shortfall from an Availability Class with low availability to an Availability Class with high availability; and
- this would not result in an existing facility, or a committed facility ~~under construction~~ being excluded.

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.