Wholesale Electricity Market
Rule Change Proposal Form

Change Proposal No: RC_2009_10
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Change requested by

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Change Proposal title:	Early Certified Reserve Capacity
Market Rule(s) affected:	4.1.1A, 4.5.2, 4.9.3, 4.11.1, 4.12.6, 4.15.1, 4.15.2, 4.28C (new), 4.28C.1 (new), 4.28C.2 (new), 4.28C.3 (new), 4.28C.4 (new), 4.28C.5 (new), 4.28C.6 (new), 4.28C.7 (new), 4.28C.8 (new), 4.28C.9 (new), 4.28C.10 (new), 4.28C.11 (new), 4.28C.12 (new), 4.28C.13 (new), 4.28C.14 (new), 4.28C.15 (new), Chapter 11 Glossary and Appendix 3

Introduction

Market Rule 2.5.1 of the Wholesale Electricity Market Rules provides that any person (including the Independent Market Operator (IMO)) may make a Rule Change Proposal by completing a Rule Change Proposal Form that must be submitted to the Independent Market Operator.

This Change Proposal can be posted, faxed or emailed to:

Independent Market Operator
Attn: Manager Market Administration
PO Box 7096
Cloisters Square, Perth, WA 6850

Fax: (08) 9254 4339
Email: marketadmin@imowa.com.au

The IMO will assess the proposal and, within 5 Business Days of receiving this Rule Change Proposal form, will notify you whether the Rule Change Proposal will be further progressed.

In order for the proposal to be progressed, all fields below must be completed and the change proposal must explain how it will enable the Market Rules to better contribute to the achievement of the wholesale electricity market objectives. The objectives of the market 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.

Details of the proposed Market Rule Change

1. Describe the concern with the existing Market Rules that is to be addressed by the proposed Market Rule change:

A number of Market Participants and potential developers have put forward the view that the current Reserve Capacity Cycle does not adequately accommodate projects that are subject to long lead times. It has been suggested that financiers are unlikely to finance projects based solely on Conditional Certified Reserve Capacity. Conditional Certified Reserve Capacity may be obtained in advance but does not guarantee that Capacity Credits will be subsequently assigned to the Facility. Certainty is only available if the Facility is considered by the IMO to be *under construction,* (a term which is proposed to be changed to *committed* in Rule Change Proposal RC_2009_07), when bilateral trade declarations are submitted around 10 August each year.

The Independent Market Operator (IMO) considers there is merit in providing additional security to project developers who can demonstrate commitment to a project beyond the current timeframes. This would facilitate new entry to the market and therefore promote competition.

For new generation facilities, the IMO proposes to extend the timeframes for Certification of Reserve Capacity and assignment of Capacity Credits. This will allow projects with long lead times to secure Capacity Credits earlier and provide greater certainty for investors. Since

longer lead times are mostly relevant for new plant, the IMO proposes that the new timeframe apply only to new generation facilities. It will not apply to upgrades to generation facilities or to Demand Side Programmes.

To distinguish this option from the normal certification process in the Rules, the IMO proposes to introduce a new concept of **Early Certified Reserve Capacity** (ECRC) in conjunction with the current Conditional Certification of Reserve Capacity provisions. ECRC, and subsequently assigned Capacity Credits, will be granted and made available for the applicable Capacity Year and will require no further application to the IMO. Facilities assigned Conditional Certified Capacity will still need to apply for Certified Reserve Capacity (CRC) in Year 1.

The IMO proposes that the criteria for being assigned ECRC will be in line with the criteria for being assigned CRC. These criteria are more stringent than for Conditional Certification. In particular, the proposed new criteria and conditions for applying for ECRC are:

- ECRC applications are limited up to 1 January of year 1 of the Reserve Capacity Cycle in which the new facility will first enter service. From 1 January of year 1 of the Reserve Capacity Cycle for which the application relates, the facility has to enter the normal certification cycle [outlined in proposed new clause 4.28C.2];
- The facility must be deemed to be committed by the IMO in order to apply for ECRC [outlined in proposed new clause 4.28C.1 (c)];
- The Market Participant must declare its intention to trade all assigned capacity bilaterally [outlined in proposed new clauses 4.28C.4 and 4.28C.6];
- The facility must apply each year for ECRC for subsequent Reserve Capacity Cycles and can only apply for one cycle per year [outlined in proposed new clause 4.28C.3];
- Subsequent ECRC applications (in case of a failed initial application) for the same Capacity Year will be subject to a processing fee [outlined in clause 4.9.3 (c)];
- The Market Participant must provide Reserve Capacity Security within 30 Business Days of approval of ECRC [outlined in proposed new clause 4.28C.6]; and
- In the interest of maintaining an equivalent basis between Facilities granted ERCR and Facilities granted CRC the security provided at the time of ECRC will be revised in year 1 of the Reserve capacity Cycle to which it relates [outlined in proposed new clause 4.28C.12].

The concept of ECRC was discussed by the Market Advisory Committee (MAC) at its December 2008 and February 2009 meetings. This Rule Change Proposal is based on the outcomes of MAC's discussions and other consultation with industry representatives. The Reserve Capacity Market Procedure will also be amended to reflect the changes in this proposal if this Rule Change Proposal is accepted.

2. Explain the reason for the degree of urgency:

The IMO proposes that the Rule Change Proposal be progressed using the Standard Rule Change Process.

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3. Provide any proposed specific changes to particular Rules: (for clarity, please use the current wording of the Rules and place a ~~strikethrough~~ where words are deleted and underline words added)

The Reserve Capacity Cycle

4.1. The Reserve Capacity Cycle

4.1.1. This clause 4.1 sets out the timetable by which the key events described in this Chapter in respect of each Reserve Capacity Auction must occur. The events described below comprise a single Reserve Capacity Cycle, except where otherwise indicated. The Reserve Capacity Cycle will be repeated for each Reserve Capacity Auction.

4.1.1A. Clause 4.28B and 4.28C takes precedence over this clause 4.1 and events described in clause 4.28B and 4.28C are not required to comply with the timetable of this section 4.1 except where specified in clause 4.28B and 4.28C.

…

4.5.2. The Long Term PASA Study must take into account:

(a) demand growth scenarios, including peak and annual energy requirements;

(b) expected Demand Side Management capabilities and taking into account clause 4.28.10;

(c) generation capacity expected to be available, including details ~~on~~ of any Early Certified Reserve Capacity, seasonal capacities, Ancillary Service capabilities, long duration outages and, for Non-Scheduled Generators, production profiles;

(d) expected transmission network capabilities allowing for expansion plans, losses and constraints; and

(e) the capacity described in clause 4.5.2A.

…

4.9.3. A Market Participant applying for certification of Reserve Capacity must provide to the IMO:

(a) ~~must provide to the IMO~~ the data specified in clause 4.10.1, in the format specified in the Reserve Capacity Procedure~~, the data specified in clause 4.10.1~~;

(b) ~~in addition, must,~~ in the case of application for certification of Reserve Capacity for an Intermittent Generator that is yet to enter service,~~ provide to the IMO~~ the report described in clause 4.10.3; and

(c) in the case of an application for conditional certification for a future Reserve Capacity Cycle, or subsequent applications for Early Certified Reserve Capacity for a Facility for the same Reserve Capacity Cycle, an Application Fee to cover the cost of processing the application.

…

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:

…

(c) the IMO must not assign Certified Reserve Capacity to a Facility for a Reserve Capacity Cycle if:

i. 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 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 of Year 4 of that Reserve Capacity Cycle; or

iii. that Facility already has Capacity Credits assigned to it under Clause 4.28C for the Reserve Capacity Cycle.

…

4.12.6. Subject to clause 4.12.7, any initial Reserve Capacity Obligation Quantity set in accordance with clauses 4.12.4, 4.12.5, ~~or~~ 4.28B.4, or 4.28C.4 is to be reduced once the Reserve Capacity Obligations take effect, as follows:

…

4.15.1. If the information provided under clauses 4.14 and 4.28C indicates that no Certified Reserve Capacity is to be made available in the Reserve Capacity Auction for a Reserve Capacity Cycle, or, based on the information received under clause 4.14, the IMO considers that the Reserve Capacity Requirement for the Reserve Capacity Cycle will be met without an auction, then, by the date and time specified in clause 4.1.16, the IMO must publish a notice specifying for that Reserve Capacity Cycle:

(a) that the Reserve Capacity Auction has been cancelled;

(b) the Reserve Capacity Requirement;

(c) the total amount of Certified Reserve Capacity;

(cA) Capacity Credits assigned under clause 4.28C;

(d) the total amount of Certified Reserve Capacity that would have been made available in the Reserve Capacity Auction had one been held; and

(e) the total amount of Certified Reserve Capacity covered by pre-existing Special Price Arrangements;

4.15.2. If the Reserve Capacity Auction for a Reserve Capacity Cycle is not cancelled in accordance with clause 4.15.1, then, by the date and time specified in clause 4.1.16, the IMO must publish a notice specifying:

(a) that the Reserve Capacity Auction will be held;

(b) the Reserve Capacity Auction Requirement, where this equals the ~~Reserve Capacity Requirement less the total amount of Certified Reserve Capacity which~~:

i. ~~the IMO has notified Market Participants can be traded bilaterally under clause 4.14.9; or~~ Reserve Capacity Requirement; less

ii. the total amount of Certified Reserve Capacity which the IMO has notified Market Participants can be traded bilaterally under clause 4.14.9 or is covered by a pre-existing Special Price Arrangement; ~~and~~ less

iii. the amount of Capacity Credits assigned under clause 4.28C for the relevant Reserve Capacity Cycle; and

(c) …

4.28C. Early Certification of Reserve Capacity

4.28C.1. This section 4.28C is applicable to Registered Facilities to which the following conditions apply:

(a) the Facility is a new Facility;

(b) the Facility is a generating system; and

(c) the Facility is deemed by the IMO to be committed.

4.28C.2. A Market Participant with a Registered Facility that meets the criteria in 4.28C.1 may apply to the IMO, at any time between the date when the Facility was registered under Chapter 2 and 1 January of Year 1 of the Capacity Cycle to which the application relates, for certification of Capacity and Capacity Credits for that Facility **("Early Certified Reserve Capacity").**

4.28C.3. Each application for Early Certified Reserve Capacity must relate to a single future Reserve Capacity Cycle. The IMO must not accept more than one application for certification of Reserve Capacity per Facility per calendar year.

4.28C.4. The application under clause 4.28C.2 must state that the applicant intends to trade all assigned Certified Reserve Capacity bilaterally.

4.28C.5. An application made under clause 4.28C.2 must include all the information required by clause 4.10 for the appropriate type of generation system for which the application pertains to.

4.28C.6. The IMO must process each application made in accordance with clause 4.28C.2 so as to determine the Early Certified Reserve Capacity, Capacity Credits and Reserve Capacity Obligations in connection with the Facility.

4.28C.7. The IMO must, within 90 days of the application, set Early Certified Reserve Capacity for the Facility to that amount it would normally grant the Facility if processing an application for Certified Reserve Capacity in accordance with clause 4.11.

4.28C.8. within 30 Business Days of the applicant receiving notification by the IMO of the amount of Early Certified Reserve Capacity assigned to the Facility the applicant must provided Reserve Capacity Security equal to the amount specified in clause 4.28C.9., else the Early Certified Reserve Capacity assigned to the Facility will lapse.

4.28C.9. The amount for the purposes of clause 4.28C.8 and 4.28C.12 is twenty-five percent of the Maximum Reserve Capacity Price included in the most recent

Request for Expressions of Interest at the time and date associated with either clause 4.28C.8 or 4.28C.12 as applicable, multiplied by an amount equal to the Early Certified Reserve Capacity assigned to the Facility.

4.28C.10. The IMO must set the Capacity Credits for the facility to equal the Early Certified Reserve Capacity of the Facility once the Reserve Capacity Security is provided to the IMO under clause 4.28C.8.

4.28C.11. The IMO must set the Reserve Capacity Obligations, including the initial Reserve Capacity Obligation Quantity, for the Facility in accordance with clause 4.12 as if set as part of an application for Certified Reserve Capacity made in accordance with clause 4.11.

4.28C.12. The Reserve Capacity Security provided by the Market Participant under Clause 4.28C.4 (b) must, by the time and date in clause 4.1.13 (a),in year 1 of the first Reserve Capacity Cycle in which the Facility will commence operation be recalculated in accordance with 4.28C.9, and the difference paid to the IMO or refunded to the Market Participant as applicable,

4.28C.13. If the IMO approves the granting of Capacity Credits to the Facility under this clause 4.28C then the Capacity Credits and the Reserve Capacity Obligations associated with that Facility will apply from the commencement of the Trading Day commencing on the start date until the end of the Trading Day ending on the end date where:

(a) the start date is 1 October of year 3 of the capacity cycle the application relates to under clause 4.28C.2 ; and

(b) the end date is the earlier of:

i. the first instance of the date 1 October after the start date; and

ii. the decommissioning date of the Facility.

4.28C.14. Capacity Credits issued by the IMO under this clause 4.28C:

(a) are not eligible to be used in a Reserve Capacity Auction; and

(b) are not eligible to have a Long Term Special Price Arrangements or Short Term Special Price Arrangements associated with them.

4.28C.15. The IMO must document the process for applying for and approving Capacity Credits in accordance with this clause 4.28C in the Reserve Capacity Procedure, and the IMO and Market Participants must follow that documented Market Procedure.

CHAPTER 11

Capacity Credit: A notional unit of Reserve Capacity provided by a Facility during a Capacity Year. The total number of Capacity Credits provided by a Facility is determined in accordance with clause 4.20, ~~or~~ clause 4.28B, or clause 4.28C. Each Capacity Credit is equivalent to 1MW of Reserve Capacity. The Capacity Credits to be provided by a Facility are held by the Market Participant registered in respect of that Facility. The number of Capacity Credits to be provided by a Facility may be reduced in certain circumstances under the Market Rules, including under clause 4.25.4 or adjusted under clause 4.25.6.

Early Certified Reserve Capacity: Reserve Capacity which is certified and assigned to a new Facility by the IMO for a future Reserve Capacity Cycle under clause 4.28C.

Reserve Capacity Obligations: For a Market Participant holding Capacity Credits, determined in accordance with clause 4.12.1, ~~or~~ clause 4.28B or clause 4.28C.

Reserve Capacity Obligation Quantity: The specific amount of capacity required to be provided in a Trading Interval as part of a Reserve Capacity Obligation set by the IMO in accordance with clauses 4.12.4 and 4.12.5 or clauses 4.28B or 4.28C as adjusted from time to time in accordance with these Market Rules, including under clause 4.12.6.

Appendix 3: Reserve Capacity Auction & Trade Methodology

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- For the testing of bilateral trades, for Availability Class a = 1 this is the greater of zero and Q[a] – X[a] while for Availability Classes a = 2, 3 or 4, this is the greater of zero and (Q[a]– X[a] - Y[a-1]) where

  Q[a] is the quantity associated with Availability Class “a” in clause 4.5.12(c).

  X[a] is the total quantity of:

  i Certified Reserve Capacity to be provided by Facilities subject to Network Control Service

Contracts and by Facilities under Long Term Special Price Arrangements during the period to which the Reserve Capacity Requirement applies; plus

ii The amount of Capacity Credits assigned under clause 4.28C for the period to which the Reserve Capacity Requirement applies

where the capacity is certified as belonging to Availability Class "a" and is not subject to a bilateral trade.

Y[a] represents the amount by which (X[a] + Y[a-1]) exceeds Q[a], with the exception that Y[0] = 0.

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4. Describe how the proposed Market Rule change would allow the Market Rules to better address the Wholesale Market Objectives:

The proposed changes will allow the Market Rules to better address market objective (b).

> *(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 support market objective (b) by facilitating the entry of new generation Facilities with long lead times as it will add certainty to the income stream around Capacity Credits. It is expected that this will have a positive effect on the ability for a Market Participant to secure financing for a new generation Facility.

The IMO considers that the proposed changes are consistent with market objectives (a), (c), (d) and (e).

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5. Provide any identifiable costs and benefits of the change:

Costs:

The monetary effect on the market is expected to be minimal as the processes and timelines being changed already exist within the Reserve Capacity Mechanism.

Some IT changes will be required to support the early assignment of capacity Credits. The IMO is currently looking into the costs and will provide estimations later in the process.

There will be a process fee charged to a Market Participant who makes multiple applications for the same Facility for the same Capacity Year for ECRC. It is proposed to that the reapplication fee will be in the order of $5,000.

Benefits:

By allowing projects with long lead times a surety of income this proposal better enables such projects to become financially viable, removing not only a barrier to entry which is apparent under the current Market Rules but also removing a discriminatory limitation on long lead time projects.
