Independent Market Operator

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Final Market Rule Change Report:

Changing the Window of Entry into the Reserve Capacity Market

Ref: RC_2009_11

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Contents

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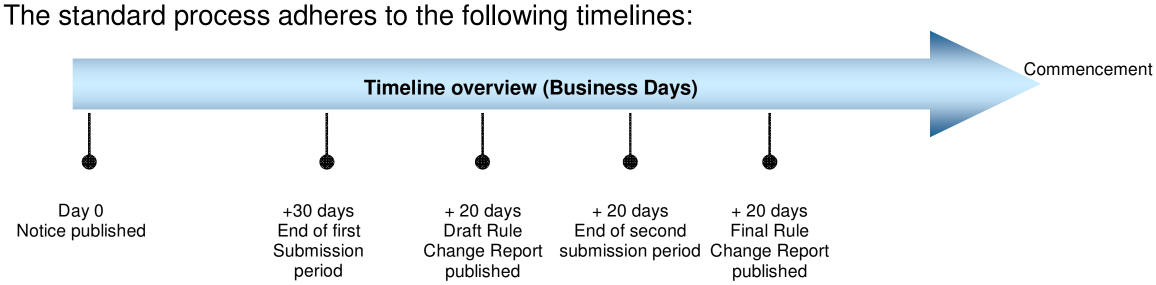
1. INTRODUCTION

On 16 February 2009 the Independent Market Operator (IMO) submitted a Rule Change Proposal regarding changes to clauses 4.1.26, and 4.11.1 of the Wholesale Electricity Market Rules (Market Rules).

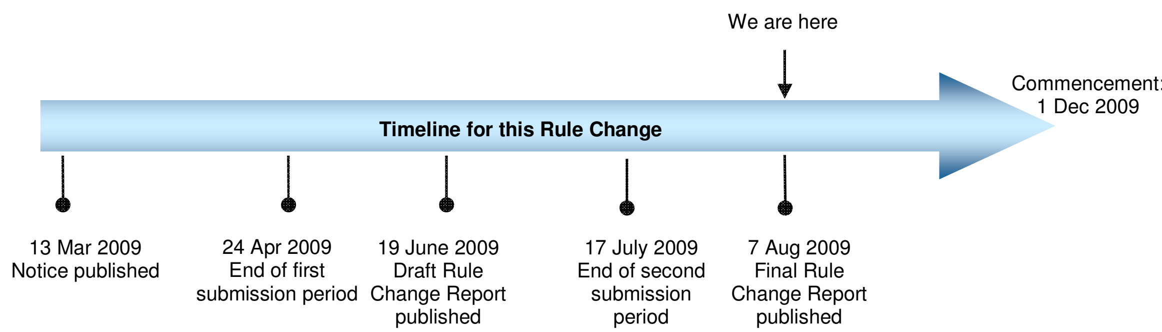
This proposal was processed using the Standard Rule Change Process, described in section 2.7 of the Market Rules.

In accordance with clause 2.5.10 of the Market Rules the IMO decided to extend the timeframe for preparing the Draft Rule Change Report until 19 June 2009. A notice of extension was published in accordance with clause 2.5.12 on the IMO website on 22 May 2009.

The standard process adheres to the following timelines:



The key dates in processing this Rule Change Proposal, as amended in the extension notice, are:



The IMO's final decision is to accept the Rule Change Proposal. The detailed reasons for the IMO's decision are set out in section 6 of this report.

In making its final decision on the Rule Change Proposal, the IMO has taken into account:

- the Wholesale Market Objectives;
- the practicality and cost of implementing the proposal;
- the views of the Market Advisory Committee (MAC);and
- the submissions received.

All documents related to this Rule Change Proposal can be found on the IMO website: http://www.imowa.com.au/Attachments/RuleChange/RuleChange_2009_11.html.

2. THE RULE CHANGE PROPOSAL

2.1 Submission Details

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Date submitted:	4 March 2009
Urgency:	Standard Rule Change Process
Change Proposal title:	**Changing the Window of Entry into the Reserve Capacity Market**
Market Rule(s) affected:	Clauses 4.1.26 and 4.11.1

2.2 Summary Details of the Proposal

Capacity from new Facilities may currently be made available to the market at any time during a four-month window (between 1 August and 30 November) centralised around 1 October. Market Participants are able to nominate any date within the window, and may revise their expected entry date as the project nears completion.

This Rule Change Proposal shifts the four month window by which new capacity can enter the Reserve Capacity Mechanism, after commissioning, from 1 August - 30 November to 1 June – 1 October of the relevant Capacity Year.

The detailed information on the proposal is contained in Appendix 1 and can be found in both the Rule Change Proposal and Draft Rule Change Report contained on the IMO's website.

The Concept Papers associated with the Rule Change Proposal are available on the IMO website: http://www.imowa.com.au/ConceptPapers.html

The MAC, at its 10 June 2009 meeting, supported the proposal to delay the implementation of any Amending Rules in regard to this Rule Change Proposal until the 2010 Reserve Capacity Cycle (2012/13 Capacity Year) from the 2009 Reserve Capacity Cycle as originally proposed. Due to the need to extend the rule change timeline, the Amending Rules would not have commenced in time for the 2009 Reserve Capacity Cycle. This would create regulatory risk around these provisions.

2.3 The Proposal and the Wholesale Market Objectives

> 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 submitted that the proposed changes, which shift the window of entry into the RCM for new entrant generators, will support market objective (a) by promoting the reliable production and supply of electricity and electricity related services in the South West interconnected system. In particular, earlier entry into the RCM will minimise the risk associated with bringing new capacity into service so that it is available during peak demand periods during summer. The proposed changes will improve the reliability of the supply of electricity and electricity related services for Market Customers by incentivising earlier entry. This will also potentially reduce the need to call Supplementary Reserve Capacity (SRC).

> *b) to encourage competition among generators and retailers in the South West interconnected system, including by facilitating efficient entry of new competitors;*

The IMO submitted that the proposed changes will also support market objective (b) by facilitating efficient entry of new competitors into the RCM. This will be achieved by providing access to an earlier income stream and reducing the risk associated with new projects, which will potentially result in a greater amount of investment in new projects. The IMO considered that the proposed changes are consistent with the other market objectives.

2.4 The Amending Rules Proposed by the IMO

The IMO proposed the following amendments to the Market Rules (~~deleted text~~, <u>added text</u>):

4.1.26. Reserve Capacity Obligations apply:

- (a) in the case of the first Reserve Capacity Cycle:
  - i. from the Initial Time, for Facilities that were commissioned before Energy Market Commencement;
  - ii. from the Trading Day commencing on the scheduled date of commissioning, as specified in accordance with clause 4.10.1(c)(iii)(7), for Scheduled Generators and Non-Scheduled Generators commissioned between Energy Market Commencement and 30 November 2007, inclusive; and
  - iii. from the Trading Day commencing on 1 October 2007 for Interruptible Loads, Curtailable Loads or Dispatchable Loads commissioned after Energy Market Commencement; and
- (b) ~~in the case of subsequent~~ <u>for</u> subsequent Reserve Capacity Cycles <u>up to and including 2008</u>:
  - i. from the Trading Day commencing on 1 October of Year 3, for Facilities that were commissioned as at the scheduled time of the Reserve Capacity Auction for the Reserve Capacity Cycle as specified in clause 4.1.18(a) or for Facilities which have provided Capacity Credits in one or both of the two previous Reserve Capacity Cycles; and
  - ii. from the Trading Day commencing on the scheduled date of commissioning, as specified in accordance with clause 4.10.1(c)(iii)(7),

or as revised in accordance with clause 4.27.11A or clause 4.27.11D, for Facilities commissioned between 1 August of Year 3 and 30 November of Year 3.

(c) for subsequent Reserve Capacity Cycles from 2009 onwards:

i. from the Trading Day commencing on 1 October of Year 3, for Facilities that were commissioned as at the scheduled time of the Reserve Capacity Auction for the Reserve Capacity Cycle as specified in clause 4.1.18(a) or for Facilities which have provided Capacity Credits in one or both of the two previous Reserve Capacity Cycles; and

ii. from the Trading Day commencing on the scheduled date of commissioning, as specified in accordance with clause 4.10.1(c)(iii)(7), or as revised in accordance with clause 4.27.11A or clause 4.27.11D, for Facilities commissioned between 1 June of Year 3 and 1 October of Year 3.

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:

(a) subject to paragraphs (d) and (e) and clause 4.11.2, the Certified Reserve Capacity for a Facility for a Reserve Capacity Cycle is not to exceed the IMO's reasonable expectation as to the amount of capacity likely to be available from that Facility, after netting off capacity required to serve Intermittent Loads, embedded loads and parasitic loads, at daily peak demand times in the period from the:

(i) start of December for Reserve Capacity Cycles up to 2009; or

(ii) trading day starting on 1 October for Reserve Capacity Cycles from 2009 onwards

in Year 3 of the Reserve Capacity Cycle to the end of July in Year 4 of the Reserve Capacity Cycle, assuming an ambient temperature of 41°C;

(b) where the Facility is a generation system (other than an Intermittent Generator), the Certified Reserve Capacity must not exceed the sum of the capacities specified in clauses 4.10.1(e)(ii) and 4.10.1(e)(iii);

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

i. for Reserve Capacity Cycles up to and including 2009 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~~ 1 October 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 June of Year 4 of that Reserve Capacity Cycle;~~

ii. for Reserve Capacity Cycles from 2009 onwards 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 1 October of Year 3 of that Reserve Capacity Cycle;

iii. for Reserve Capacity Cycles up to and including 2008 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

iv. for Reserve Capacity Cycles from 2009 onwards that Facility will cease operation permanently, and hence cease to meet Reserve Capacity Obligations, from a time earlier than 1 June of Year 4 of that Reserve Capacity Cycle;

…

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.

3. FIRST SUBMISSION PERIOD

The first submission period for this Rule Change Proposal was between 13 March 2009 and 24 April 2009.

3.1 Submissions received

The IMO received submissions on the Rule Change Proposal from Alinta, Landfill Gas & Power (LGP), Perth Energy, Synergy and Verve Energy. The details of the submissions received during the first submission period are summarised below. The full text of the public submissions is available on the IMO website.

3.1.1 Submission from Alinta

Alinta submitted that it does not support the proposed rule change as it does not demonstrate that the increased costs borne by the market are either justified, or appropriate. In particular:

- Alinta considered that the effect of shifting the Reserve Capacity window is unclear. Specifically, the timing of capacity of a new Facility is predominantly determined by the project's foundation customers through negotiated power purchase agreements and subject to a number of risks impacting on their ability to commission. The proposed changes would not affect project specific risk and therefore the effectiveness of the proposal in ensuring that capacity is available by the commencement of the summer period is unclear.

- Alinta noted that the effect of shifting the Reserve Capacity window on risk taking behaviour is unclear. In particular, Alinta submitted that:

    - the extension of the period between the close of the Reserve Capacity window and commencement of the summer period may reduce the risk of Force Outages occurring during the summer period;

    - the Capacity Credit payment multiplier is less than one during October and November there would be a financial incentive for developers to claim to be able to make new capacity available by 1 October, even if this were not the case. That is, to the extent that the current Market Rules promote inappropriate risk taking, it's not clear that the proposal would affect this and therefore may not reduce the risk of Forced Outages; and

    - the Market Rules appear to be premised on the expectation that new capacity, once commissioned, has the same probability of Forced Outage as existing capacity. It may therefore be preferable to examine the effectiveness of related elements in the Market Rules that may directly effect this such as commissioning plans (MR 2.33.3(c)(vii)(2)) and Commissioning Tests (MR 3.21A.3).

- Alinta considered that it is not clear that the existing Market Rules do not already contain an appropriate balance between financial incentives to make new capacity available to the market ahead of the start of the summer period (i.e. December), and financial penalties if the new capacity cannot be made available by the start of the summer period. In particular Alinta noted that:

    - under Market Rule 4.26.1 all Facilities (including new Facilities that are unable to provide capacity to the market by 30 November) are liable for Capacity Cost Refunds for Forced Outages. Refund multipliers are highest in February and March, followed by December and January.

      Specifically, Alinta noted that the IMO, in its Draft Rule Change Report, has proposed that RC_2008_35, that sought to reintroduce seasonal caps on the amount of Capacity Credit payments that Facilities (including new Facilities) would be liable to refund for any Forced Outages on the basis that Market Rule 4.26.1 was 'punitive', be rejected. The IMO's recommendation was based on the conclusion that the Rule Change Proposal would reduce incentives for new (and existing) generators on outage to make available capacity during the Hot Season, which would have the potential to reduce overall system reliability at a time when demand could be expected to be highest.

- The IMO, in its Draft Rule Change Report, proposed to accept (with amendments) a Rule Change Proposal that would amend the Market Rules so that in certain circumstances the cost of Supplementary Capacity Contracts would be targeted at specific Market Participants rather than being included in the shared Reserve Capacity Cost (RC_2008_34). These circumstances would include where a Facility suffers an extended Forced Outage.

Alinta contended that the IMO has not quantified the benefits of shifting the window of entry into the market and therefore it is unclear that the benefits which are claimed to be associated with the proposed changes exceed the costs.

Alinta contended that after assessing whether the proposed changes better facilitate the achievement of the market objectives it is unclear whether RC_2009_11 is consistent with market objectives (a) and (d). In particular, Alinta noted that:

- to the extent that RC_2009_11 results in capacity becoming available earlier than would otherwise be the case, it will increase the cost of capacity to the market. The value to the market of the early entry of this capacity is unclear particularly if, as discussed earlier, it does not reduce the risk of Forced Outages occurring during the summer period (i.e. December to March). Consequently, it is unclear whether RC_2009_11 is consistent market objective (a); and

- given that the benefits claimed to be associated with RC_2009_11 have not been quantified, it does not appear possible to conclude that the Rule Change Proposal minimises the long-term cost of electricity supplied to customers from the South West interconnected system. Consequently, it is unclear whether RC_2009_11 is consistent with market objective (d).

Furthermore, Alinta contended that the Market Rules do not appear to provide guidance as to whether the IMO may make Amending Rules where it:

- concludes that a Rule Change Proposal is not consistent with one or more market objectives; or

- is unable to conclude that a Rule Change Proposal is consistent (or at least not inconsistent) with each of the market objectives.

Alinta submitted that the Market Rules also appear to be silent on whether the IMO may assign weights to each individual market objectives, and hence conclude that the 'weighted average effect' of the Rule Change Proposal is consistent with 'weighted average' of the market objectives.

As it cannot be determined that the Rule Change Proposal is consistent with *each* of the market objectives, Alinta considered that the Market Rules preclude the IMO from accepting RC_2009_11.

3.1.2 Submission from Landfill Gas and Power

LGP supported the Rule Change Proposal on the grounds that bringing forward the four month window of entry to commence on 1 June will encourage availability during the Hot Season, when it is most needed.

LGP noted that the earlier commencement of refunds from 1 October, when refunds are relatively low, as it incentivises new plant to commission and optimise operation prior to the Hot Season. LGP also contended that the earlier start window permits simpler projects of shorter construction time to come on earlier.

3.1.3 Submission from Perth Energy

In its submission Perth Energy provided support for the Rule Change Proposal on the following grounds:

- The earlier service requirement date reduces the risk to the power system because developers must aim for an earlier date;

- If a new entrant generator is late entering the market, then the initial shortfall is at a less critical time when power system demand is not as high than under the current Market Rules; and

- If a developer is required to pay refunds because its plant is late to service, the first two months will be repaid at a lesser refund rate than under the current Market Rules. It would be expected that the two months should provide sufficient time to resolve issues causing the delay unless they are extremely serious.

Perth Energy noted that the date at which a retiring plant can be withdrawn from service has been proposed to change from 1 August to 1 June which is consistent with the changed window of entry. Perth Energy however contended that the date for retiring a plant should not be moved. In particular Perth Energy noted that the difference in the date between when a plant is withdrawn and then equivalent capacity is available places the system at risk. If the date is left as currently in the Market Rules then the system will be at risk for only two months, a shorter amount of time than under the current Market Rules

3.1.4 Submission from Synergy

In its submission Synergy noted that currently the timeframe for new capacity to enter the market is a four month window centralised around 1 October (the start of the Capacity Year), with facilities being able to claim payment for Capacity Credits as early as 1 August.

Synergy contended that the ability to receive payment for Capacity Credits early improves cash flows and provides encouragement for them to commission well before the critical summer peak period. This will mean that there is a reduced risk of the IMO having to call a SRC auction. In this respect Synergy noted that having an incentive for early arrival is important and is the reason that they would avoid recommending no payment or reduced payment to Facilities arriving earlier than 1 October. Synergy also noted that by not including the potential SRC savings in the estimates of cost to the market the IMO may have overstated the cost.

Synergy noted that it raised concerns during the MAC that earlier entry, and payment before they are required, may increase inefficiency in the market. This has a direct impact on customer tariffs, given their infrequent determination leading to a misalignment with actual capacity costs. It also further discourages a Market Customer offering bundled supply to its customers by increasing the capacity cost risk. However this only translates into an increase risk premium passed onto bundled loads rather than a direct reduction in the number of bundled loads being offered.

Synergy submitted that on balance the incentives created to avoid lateness and any resulting SRC outweigh the potential costs to of the shifted window of entry for capacity payments.

Consequently, Synergy supported the shifted window of entry as presented in the proposed rule change, partly as a better solution to capacity payment alignment and party because it improves system reliability and better avoids the need for SRC.

3.1.5 Submission from Verve Energy

Verve Energy supported the proposal to shift the window of entry for new capacity into the market as it strikes an appropriate balance between the risks associated with commissioning delays and the potential increased costs of procuring additional capacity two months earlier.

Verve Energy noted that the proposal does not seek to amend the timeline for certification and allocation of Capacity Credits. Facilities which clear in the Reserve Capacity Auction will have less than 25 months to achieve completion. Anecdotal evidence suggests that 30 months is more appropriate and therefore Verve Energy suggests that this should receive consideration.

Verve Energy also noted that consideration should be given to maintaining the present retirement date of a plant as the proposed changes would impact on security of supply during winter months when demand is relatively high and a new plant may yet be commissioned. Verve Energy contended that such a change is unlikely to impose significant costs on the market as most facilities would be expected to continue operation until 1 October in order to maximise Capacity Credit revenue.

3.3 The IMO's assessment of First Submission period responses

The IMO received support from four of the five responses to the invitation for submissions for the Rule Change Proposal during the first submission period. In particular, LGP, Perth Energy, Synergy and Verve Energy were supportive of the proposal on the grounds that it will ensure summer readiness and potentially reduce the need for SRC to be called. In addition, both Verve Energy and Synergy contended that any incentives created to avoid lateness and any resulting SRC costs outweigh the potential costs of the shifted window of entry for Capacity Credit payment.

Perth Energy and Verve Energy also noted in their submissions that consideration should be given to maintaining the present retirement date of a plant as the proposed changes would potentially impact on security of supply during winter months when demand is relatively high and a new plant may yet be commissioned.

The IMO agreed that a shorter amount of time between when a plant is retired and when a new plant is available would place the market at less risk during the winter months. In particular, the IMO noted that the intent of the Rule Change Proposal is to reduce the risks to the market associated with the availability of capacity at times of high need, such as the costs of SRC. In this respect, maintaining the current date for the termination of the capacity obligations for those Facilities which are ceasing operation permanently will further reduce the overall risk to the market associated with the availability of capacity. Given this potential benefit to the market the IMO amended clause 4.11.1 accordingly.

In its submission Verve Energy stated that as the proposal does not seek to amend the timeline for certification and allocation of Capacity Credits, new facilities will have less than 25 months to achieve completion. Verve Energy suggested that this should receive further consideration by the IMO given anecdotal evidence suggests that this timeframe would actually be longer.

In response to Verve Energy's query, the IMO noted that considerations to provide additional security to project developers who can demonstrate commitment to projects beyond the current timeframes will be addressed by the IMO's Rule Change Proposal to introduce the concept of Early Certified Reserve Capacity (RC_2009_10). Additionally, certification would not be provided if the IMO was not convinced that the Facility would be available in time to meet its Reserve Capacity obligations.

In contrast, Alinta did not support RC_2009_11 as it considers that the Rule Change Proposal does not demonstrate that the increased costs that would be borne by the market are justified on the basis that the benefits exceed the costs, or are appropriate given:

(1) the effect of shifting the Reserve Capacity window is unclear;

(2) the effect of shifting the Reserve Capacity window on risk taking behaviour is unclear; and

(3) the Market Rules already contain mechanisms to discourage inappropriate risk taking.

Alinta was ultimately uncertain whether the proposed changes were consistent with the Wholesale Market Objectives as the benefits had not been quantified. Alinta noted that while capacity will be available earlier to the market the cost is unclear as it does not reduce the risk of Forced Outages during the summer months.

In response to Alinta's first point, the IMO noted that the window of entry into the RCM will still be four months. The changes will incentivise earlier entry into the market and so reduce the risks to the market associated with late entry. The IMO also noted that it had recommended delayed implementation dates for the proposed changes so any new developers could be made well aware that the window of entry will be shifting. Any project specific risk must be managed by investors; however the IMO can incentivise capacity to be available for the summer period by amending the design of the RCM.

Alinta also submitted that as the benefits have not been quantified it is unclear that the benefits which are claimed to be associated with the proposed changes exceed the costs. The IMO undertook further analysis of the costs and benefits. The methodology applied to quantify the benefits and the results are available in Appendix 2 of this report.

In response to Alinta's concerns the effect of shifting the Reserve Capacity window on risk taking behaviour is unclear (point 2) the IMO noted that if a Facility were to represent a risk to the system by potentially not being available by October, it will not be provided Capacity Credits by the IMO.

Alinta also submitted that because the Capacity Credit multiplier is less than one during October and November there would be a financial incentive for developer to claim to be available by 1 October, even if this were not the case. The IMO noted that, ultimately, Market Participants are responsible for managing this risk and there are strong financial incentives for a Facility to be ready as soon as possible. Given that the proposed changes promote earlier entry into the market this rule change will help reduce the risk to power system reliability. This is particularly vital given the potential impacts to the market of projects which have run late in the past.

Furthermore, the IMO noted that the shifted window of entry will mean that those Facilities which the IMO is not convinced will be available in time no longer have to wait until 1 August for the next year's Reserve Capacity Cycle to begin.

Alinta also questioned the premise that new capacity, once commissioned, has the same probability of Forced Outage as existing capacity. Alinta suggested that it may be preferable to examine the effectiveness of other relative elements such as commissioning plans and commissioning tests. The IMO noted RC_2009_08 proposes a number of changes to the treatment of Facilities in the energy market when commissioning, including introducing the concept of late commissioning.

Alinta also queried in its submission whether the existing Market Rules do not already contain an appropriate balance between financial incentives to make new capacity available to the market ahead of the start of the summer period (i.e. December), and financial penalties if the new capacity cannot be made available by the start of the summer period (point 3). The IMO noted that the while the current rules do contain some mechanisms to discourage inappropriate risk taking, the Rule Change Proposal will further develop and strengthen these existing incentives to ensure that capacity is available prior to the Hot Season. This will reduce the chance of SRC needing to be called and reduce the exposure to the market.

Alinta's submission also queried the IMO's mandate for assessing proposed Amending Rules against the Wholesale Market Objectives. In particular, Alinta noted that it is unclear in the Market Rules:

- whether the IMO may make Amending Rules when it concludes that they are inconsistent with one or more market objectives or is unable to conclude that a Rule Change Proposal is consistent (or at least not inconsistent) with each of the market objectives; and

- whether the IMO may assign weights to each individual market objective.

To clarify the IMO's position when assessing a Rule Change Proposal, the IMO noted that it must decide whether the proposed Amending Rules as a whole would still be consistent with the market objectives if they were amended as proposed (see clause 2.4.2 of the Market Rules). This allows the IMO to determine whether the changes will result in a net benefit to the market.

The IMO also noted that it does not currently assign weights to each individual market objective. The assessment criterion is against the market objectives as a whole.

3.4 Public Forums and Workshops

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

3.5 Additional Amendments

During the first public submission period the IMO considered that some changes to the proposed Amending Rules were required to:

- remove the originally proposed amendment to the retirement date of a Facility;
- improve the drafting; and
- adjust the Reserve Capacity Cycles dates to be inline with implementation during the 2010 Reserve Capacity Cycle (2012/13 Capacity Year), as agreed at the June 2009 MAC meeting (see section 7.4 for further details).

These changes are as follows (~~deleted text~~, <u>added text</u>):

4.1.26. Reserve Capacity Obligations apply:

(a) in the case of the first Reserve Capacity Cycle:

i. from the Initial Time, for Facilities that were commissioned before Energy Market Commencement;

ii. from the Trading Day commencing on the scheduled date of commissioning, as specified in accordance with clause 4.10.1(c)(iii)(7), for Scheduled Generators and Non-Scheduled Generators commissioned between Energy Market Commencement and 30 November 2007, inclusive; and

iii. from the Trading Day commencing on 1 October 2007 for Interruptible Loads, Curtailable Loads or Dispatchable Loads commissioned after Energy Market Commencement; and

(b) ~~in the case of subsequent~~ for subsequent Reserve Capacity Cycles up to and including 200~~8~~<u>9</u>:

i. from the Trading Day commencing on 1 October of Year 3, for Facilities that were commissioned as at the scheduled time of the

Reserve Capacity Auction for the Reserve Capacity Cycle as specified in clause 4.1.18(a) or for Facilities which have provided Capacity Credits in one or both of the two previous Reserve Capacity Cycles; and

ii. from the Trading Day commencing on the scheduled date of commissioning, as specified in accordance with clause 4.10.1(c)(iii)(7), or as revised in accordance with clause 4.27.11A or clause 4.27.11D, for Facilities commissioned between 1 August of Year 3 and 30 November of Year 3.

(c) for subsequent Reserve Capacity Cycles from 20~~09~~10 onwards:

i. from the Trading Day commencing on 1 October of Year 3, for Facilities that were commissioned as at the scheduled time of the Reserve Capacity Auction for the Reserve Capacity Cycle as specified in clause 4.1.18(a) or for Facilities which have provided Capacity Credits in one or both of the two previous Reserve Capacity Cycles; and

ii. from the Trading Day commencing on the scheduled date of commissioning, as specified in accordance with clause 4.10.1(c)(iii)(7), or as revised in accordance with clause 4.27.11A or clause 4.27.11D, for Facilities commissioned between 1 June of Year 3 and 1 October of Year 3.

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:

(a) subject to paragraphs (d) and (e) and clause 4.11.2, the Certified Reserve Capacity for a Facility for a Reserve Capacity Cycle is not to exceed the IMO's reasonable expectation as to the amount of capacity likely to be available from that Facility, after netting off capacity required to serve Intermittent Loads, embedded loads and parasitic loads, at daily peak demand times in the period from the:

(i) start of December for Reserve Capacity Cycles up to and including 2009; or

(ii) trading day starting on 1 October for Reserve Capacity Cycles from 20~~09~~10 onwards

in Year 3 of the Reserve Capacity Cycle to the end of July in Year 4 of the Reserve Capacity Cycle, assuming an ambient temperature of 41^{o}C;

(b) where the Facility is a generation system (other than an Intermittent Generator), the Certified Reserve Capacity must not exceed the sum of the capacities specified in clauses 4.10.1(e)(ii) and 4.10.1(e)(iii);

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

i. for Reserve Capacity Cycles up to and including 2009 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 ~~1 October~~ 30 November of Year 3 of that Reserve Capacity Cycle;

ii. for Reserve Capacity Cycles from 20~~09~~10 onwards 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 1 October of Year 3 of that Reserve Capacity Cycle; or

iii. ~~for Reserve Capacity Cycles up to and including 2008~~ 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~~

~~iv. for Reserve Capacity Cycles from 2009 onwards that Facility will cease operation permanently, and hence cease to meet Reserve Capacity Obligations, from a time earlier than 1 June August of Year 4 of that Reserve Capacity Cycle;~~

…

4. THE IMO'S DRAFT ASSESSMENT

The IMO's assessment, as contained in its Draft Rule Change Report, can be viewed on the IMO's website.

5. THE IMO'S DRAFT DECISION

Based on the matters set out in the Draft Rule Change Report, the IMO's draft decision, in accordance with clause 2.7.7(f) was to accept the proposed amendments to 4.1.26, and 4.11.1 of the Market Rules as proposed in the Rule Change Proposal and amended following the first submission period.

The IMO has made its decision on the following basis:

- The Amending Rules:
  - Will allow the Market Rules to better address Wholesale Market Objectives (a) and (b);

- Are consistent with the remaining Wholesale Market Objectives;
- Have acceptable identified costs associated with the implementation;
- Have the support of the MAC; and
- Have the support of the majority of submissions during the first submission period.

- Further cost-benefit analysis undertaken by the IMO illustrated that the benefits associated with the Rule Change Proposal exceeded any costs that may arise.

6. SECOND SUBMISSION PERIOD

Following the publication of the Draft Rule Change Report on the IMO website, the second submission period was between 22 June 2009 and 17 July 2009.

The IMO received no further submissions during the second submission period.

6.1 Additional Amendments

During the second public submission period the IMO considered that some changes to the proposed Amending Rules were required to correct a small typographical error.

This change is as follows (~~deleted text~~, <u>added text</u>):

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:

(a) subject to paragraphs (d) and (e) and clause 4.11.2, the Certified Reserve Capacity for a Facility for a Reserve Capacity Cycle is not to exceed the IMO's reasonable expectation as to the amount of capacity likely to be available from that Facility, after netting off capacity required to serve Intermittent Loads, embedded loads and parasitic loads, at daily peak demand times in the period from the:

~~(i)~~ start of December for Reserve Capacity Cycles up to and including 2009; or

~~(ii)~~ trading day starting on 1 October for Reserve Capacity Cycles from 2010 onwards

in Year 3 of the Reserve Capacity Cycle to the end of July in Year 4 of the Reserve Capacity Cycle, assuming an ambient temperature of 41°C;

…

7. THE IMO'S FINAL ASSESSMENT

In preparing its 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.

Market Rule 2.4.2 outlines that 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*".

Additionally, clause 2.4.3 states, when deciding whether to make Amending Rules, the IMO must have regard to the following:

- Any applicable policy direction from the Minister regarding the development of the market;
- The practicality and cost of implementing the proposal;
- The views expressed in submissions and by the MAC; and
- Any technical studies that the IMO considers necessary to assist in assessing the Rule Change Proposal.

The IMO notes that there has not been any applicable policy direction from the Minister in respect of this Rule Change.

The IMO's assessment is outlined in the following sections.

7.1 Market Objectives

The IMO considers that the Market Rules as a whole, if amended, will be consistent with the Wholesale Market Objectives.

Wholesale Market Objective		Consistent with objective
(a)	to promote the economically efficient, safe and reliable production and supply of electricity and electricity related services in the South West interconnected system	Yes
(b)	to encourage competition among generators and retailers in the South West interconnected system, including by facilitating efficient entry of new competitors	Yes
(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	Yes
(d)	to minimise the long-term cost of electricity supplied to customers from the South West interconnected system	Yes
(e)	to encourage the taking of measures to manage the amount of electricity used and when it is used	Yes

Further, the IMO considers that the Market Rules if amended would not only be consistent with the Wholesale Market Objectives but also allow the Market Rules to better address Wholesale Market Objectives (a) and (b):

Impact	**Wholesale Market Objectives**
Allow the Market Rules to better address objective	a, b,
Consistent with objective	c, d, e

The IMO's assessment against market 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;*

The IMO considers that the proposed changes, which shift the window of entry into the market for new entrant generators, will support market objective (a) by promoting the reliable production and supply of electricity and electricity related services in the South West interconnected system. In particular, earlier entry into the market will minimise the risk associated with bringing new capacity into service so that it is more likely to be available during peak demand periods during summer. Developers taking risk around project completion timeframes can place the whole power system at risk if the capacity is not delivered on time. The proposed changes will improve the reliability of the supply of electricity and electricity related services for Market Customers by incentivising earlier entry into the SWIS. This will potentially reduce the need to call SRC.

The IMO's assessment against market objective (b) is as follows:

> *(b) to encourage competition among generators and retailers in the South West interconnected system, including by facilitating efficient entry of new competitors;*

The proposed rule changes will support market objective (b) by facilitating efficient entry of new competitors into the RCM, and reducing the risk associated with new projects.

The IMO considers that the proposed changes are consistent with the other market objectives.

7.2 Practicality and cost of implementation

The proposed changes will also require some minor changes to the Wholesale Electricity Market Systems operated by the IMO. It has been estimated that the associated changes to Wholesale Electricity Market Systems operated by the IMO will cost approximately AUD $15,000.

The proposed changes were evaluated to ensure there were no modifications required to the settlement systems. No changes were identified.

7.3 Views expressed in submissions

Of the five submissions received during the first submission period, LGP, Perth Energy, Synergy and Verve Energy supported the proposal. The main reason put forward by these parties for supporting the proposal was the benefit expected from reducing the risk to the market of a new generation Facility being late and the associated improvements in security and reliability.

Perth Energy and Verve Energy did not support moving the date at which a Facility could be decommissioned and receive Capacity Credits. This was made on the basis that a shorter amount of time between when a plant is retired and when a new plant is available may place the market at less risk during the winter months. The IMO agreed that this shorter amount of time may reduce the level of risk to the market. Given that the intent of the proposed rule change is to reduce the risks associated with capacity availability the IMO modified the Amending Rules accordingly.

In contrast, Alinta did not support RC_2009_11 as it considered that the Rule Change Proposal did not demonstrate that the increased costs borne by the market are justified on the basis that the benefits exceed the costs or are appropriate.

The IMO's response to the general issues raised by Market Participants during the first submission period is contained in section 3.3 of this report. Additionally, the IMO undertook a detailed cost-benefit analysis of the proposal against the current situation which was available for comment during the second submission period.

During the second submission period no further submissions were received.

7.4 Views expressed by the Market Advisory Committee

The MAC met to discuss the proposal,at various stages:

- 10 December 2008: Concept Paper (CP_2008_01);
- 11 February 2009: Concept Paper (CP_2009_01);
- 11 March 2009: Pre-rule change discussion paper;
- 29 April 2009: Rule Change Proposal noted in the overview of Market Rules changes; and
- 10 June 2009: Rule Change Proposal - amendments to implementation timeframe.

Additionally, on 13 March 2009 the IMO informed the MAC that a formal Rule Change Proposal had been submitted.. The IMO did not receive any requests by the MAC to convene a meeting to discuss the Rule Change Proposal.

An overview of the discussion from the various MAC meetings is presented below. Further details are available in the MAC meeting minutes available on the following website:
http://www.imowa.com.au/market_advisory_committee.htm

December 2008 MAC meeting

The IMO presented the concept of shifting the window of entry to the MAC. The concept paper outlined three options for the MAC to consider. The IMO recommended a four month window between 1 June and 1 October:

The MAC recommended that the IMO consider the potential for introducing a scaling mechanism for payment and assess the impact of early entry on other parts of the supply chain. MAC members were also asked to provide submissions on the concepts to the IMO. The IMO received a submission from Alinta suggesting that the window of entry be truncated so that it spans only two months.

February 2009 MAC meeting

The outcomes of the IMO's further assessment were presented to the MAC. With respect to implementing a scaling mechanism for payment, the IMO identified several possible scenarios. The IMO's overall conclusion was that there may not be sufficient benefit in introducing a scaling mechanism for payments due to the added complexity that such a mechanism brings.

The IMO also presented its analysis of Alinta's suggestion to truncate the window of entry to two months in the revised concept paper. The IMO noted that it did not support this idea due to the reduction in flexibility in entering the RCM and its failure to incentivise earlier entry to the market than under the current arrangements.

Accordingly, the IMO recommended the original proposal of shifting the window of entry to 1 June and 1 October be retained, the MAC agreed with this recommendation.

March 2009 MAC meeting

The IMO presented the pre-rule change discussion paper, Given that the concepts were discussed at two previous MAC meetings, the MAC agreed that there was no need for either a discussion on the intention of the pre-rule change proposal or on the detail of the specific rule changes.

At this meeting, the IMO noted that the changes were intended to be implemented in time for the 2011/12 Capacity Year. MAC raised a question as to whether another years warning was required considering capacity cost refunds would need to be paid from October rather than December. In response the IMO committed to highlighting the upcoming changes to developers via email notification.

The MAC unanimously agreed that the IMO progress the paper through the Rule Change Process.

June 2009 MAC meeting

The MAC supported the IMO's proposal to delay the implementation of any Amending Rules in regard to this Rule Change Proposal until the 2010 Reserve Capacity Cycle (2012/13 Capacity Year) from the 2009 Reserve Capacity Cycle as originally proposed. Due to the need to extend the rule change timeline, the Amending Rules would not have commenced in time for the 2009 Reserve Capacity Cycle. This would create regulatory risk around these provisions.

8. THE IMO'S FINAL DECISION

The IMO's final decision is to accept the proposed amendments to clause 4.1.26 and 4.11.1 of the Market Rules as proposed in the Draft Rule Change Report.

8.1 Reasons for the decision

The IMO has made its decision on the following basis:

- The Amending Rules:
  - will allow the Market Rules to better address Wholesale Market Objective (a) and (b);
  - are consistent with the remaining Wholesale Market Objectives;
  - have the support of the MAC; and
  - have the support of the majority of submissions received during the first submission period.

Additional detail outlining the analysis behind the IMO's reasons is outlined in section 7 of this Final Rule Change Report.

9. AMENDING RULES

9.1 Commencement

The amendments to the Market Rules resulting from this Rule Change Proposal will commence at **8:00am** on **1 December 2009.**

9.2 Amending Rules

The following clauses are amended (~~deleted text~~, <u>added text</u>):

4.1.26. Reserve Capacity Obligations apply:

(a) in the case of the first Reserve Capacity Cycle:

i. from the Initial Time, for Facilities that were commissioned before Energy Market Commencement;

ii. from the Trading Day commencing on the scheduled date of commissioning, as specified in accordance with clause 4.10.1(c)(iii)(7), for Scheduled Generators and Non-Scheduled Generators commissioned between Energy Market Commencement and 30 November 2007, inclusive; and

iii. from the Trading Day commencing on 1 October 2007 for Interruptible Loads, Curtailable Loads or Dispatchable Loads commissioned after Energy Market Commencement; and

(b) ~~in the case of subsequent~~ for subsequent Reserve Capacity Cycles up to and including 2009:

i. from the Trading Day commencing on 1 October of Year 3, for Facilities that were commissioned as at the scheduled time of the Reserve Capacity Auction for the Reserve Capacity Cycle as specified in clause 4.1.18(a) or for Facilities which have provided Capacity Credits in one or both of the two previous Reserve Capacity Cycles; and

ii. from the Trading Day commencing on the scheduled date of commissioning, as specified in accordance with clause 4.10.1(c)(iii)(7), or as revised in accordance with clause 4.27.11A or clause 4.27.11D, for Facilities commissioned between 1 August of Year 3 and 30 November of Year 3.

(c) for subsequent Reserve Capacity Cycles from 2010 onwards:

i. from the Trading Day commencing on 1 October of Year 3, for Facilities that were commissioned as at the scheduled time of the Reserve Capacity Auction for the Reserve Capacity Cycle as specified in clause 4.1.18(a) or for Facilities which have provided Capacity Credits in one or both of the two previous Reserve Capacity Cycles; and

ii. from the Trading Day commencing on the scheduled date of commissioning, as specified in accordance with clause 4.10.1(c)(iii)(7), or as revised in accordance with clause 4.27.11A or clause 4.27.11D, for Facilities commissioned between 1 June of Year 3 and 1 October of Year 3.

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:

(a) subject to paragraphs (d) and (e) and clause 4.11.2, the Certified Reserve Capacity for a Facility for a Reserve Capacity Cycle is not to exceed the IMO's reasonable expectation as to the amount of capacity likely to be available from that Facility, after netting off capacity required to serve Intermittent Loads, embedded loads and parasitic loads, at daily peak demand times in the period from the:

i start of December for Reserve Capacity Cycles up to and including 2009; or

ii trading day starting on 1 October for Reserve Capacity Cycles from 2010 onwards

in Year 3 of the Reserve Capacity Cycle to the end of July in Year 4 of the Reserve Capacity Cycle, assuming an ambient temperature of 41°C;

(b) where the Facility is a generation system (other than an Intermittent Generator), the Certified Reserve Capacity must not exceed the sum of the capacities specified in clauses 4.10.1(e)(ii) and 4.10.1(e)(iii);

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

i. for Reserve Capacity Cycles up to and including 2009 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;~~

ii. for Reserve Capacity Cycles from 2010 onwards 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 1 October of Year 3 of that Reserve Capacity Cycle; or

iii. 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;

…

APPENDIX 1: FULL DETAILS OF THE PROPOSAL

A key objective for the Wholesale Electricity Market (WEM) is to ensure that electricity and related services are provided reliably and economically. This is a significant issue in Western Australia because the electricity system is isolated and supplies cannot be drawn from neighbouring systems during times of system peak demand.

The provision of capacity in Western Australia is achieved through the Reserve Capacity Mechanism. 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 reliability requirements. Key to this process is the investors themselves and investor sentiment around entry into the market.

Under the current provisions, the Reserve Capacity Mechanism operates on a cycle which sees all capacity first certified and then assigned Capacity Credits, either through a bilateral trade declaration or auction process. The process of receiving Certified Reserve Capacity is the first significant step in receiving Capacity Credits. This technical evaluation step is used to determine what capacity capability can be provided by a Facility. Capacity Credits are then assigned first through the bilateral trade declaration process and then if needed through a Reserve Capacity Auction.

Currently the timeframe for new capacity to enter the Reserve Capacity Mechanism (RCM) is a four-month window centralised around the start of a new Capacity Year on 1 October (the window for entry is between 1 August and 30 November). This timeframe allows new Facilities to enter the RCM and receive the benefit of Capacity Credits and any associated income stream from 1 August. Market Participants are encouraged to enter the RCM as early as possible so that any initial commissioning issues do not affect the power system at critical times over summer.

Market Participants have the ability to nominate initial projected dates of entry into the RCM (between 1 August and 30 November) and revise these dates, as part of their regular reporting requirements, as the project nears completion. Once the Facility is fully capable of meeting its obligations and has completed commissioning the Facility is subject to Capacity Cost Refunds for unapproved outages. Capacity Cost Refunds also apply from 1 December for Facilities which have not completed commissioning by 30 November of the relevant Capacity Year.

In its original proposal the IMO noted that it considers that the current dates for entry of new capacity may encourage risk taking by new entrant generators. For example, a developer may take an optimistic view and bring a project forward in order to meet the 30 November deadline. This may especially be the case if the alternative to coming on before 30 November is to delay the project until the next Capacity Year.

Developers taking risk around project completion timeframes, for example nominating unreasonable project completion timelines, can place the whole power system at risk if the capacity is not delivered on time.

In response to these considerations, the IMO proposed to retain the four month window of entry for new entrant generators, but bring the window forward to start on 1 June, with all capacity to be fully available no later than 1 October each year. This will have a net benefit to the market by minimising the risk associated with bringing new capacity into service. By coming on no later than 1 October, operators of new plant will have some time to fine-tune its operations before the summer peak demand period.

The concept of shifting the window of entry for new entrant generators was presented by the IMO to the MAC at the 10 December 2008 and 11 February 2009 meetings. The Rule Change Proposal was based on the outcomes of the MAC's discussions and consultation with other industry representatives. Copies of the concept papers, which contain details of the additional analysis of the various options and considerations undertaken by the IMO, are available from the IMO's public website.

The IMO proposed that these changes be implemented for the 2011/12 capacity year. This will mean that:

a) potential developers will have sufficient time to take these changes into account when making their investment decisions;

b) projects currently underway (for the 2009/10 and 2010/11 capacity years) which were financed under the current Reserve Capacity structure and may be targeting 30 November as their commissioning date will not be required to be in service by 1 October; and

c) there should be no barriers to entry created for existing developers in the market.

It should be noted that the 2009 Request for Expressions of Interest (EOI) for the 2011/12 Reserve Capacity Cycle, released January 2009, notes that "new facilities must be available for commercial service by 30 November 2011". However, the EOI also signalled that there are currently a number of proposed rule improvements under consideration in the rule change mechanism provided for under the Market Rules relating to:

a) the Certified Reserve Capacity provisions;

b) the timing and deadlines associated with the Certification process;

c) fuel provisions and requirements; and

d) renewable generation certification and requirements.

APPENDIX 2: COST BENEFIT ANALYSIS

In response to Alinta's concerns during the first submission period that the benefits of the Rule Change Proposal were unquantified and uncertain, the IMO undertook a further cost-benefit analysis of the proposal to shift the window of entry for new capacity to the current situation. The details of the approach used for undertaking this assessment and the outcomes are presented in detail below along with the IMO's conclusions.

The IMO acknowledged Alinta's point that it is difficult to quantify the costs and benefits. The IMO noted that while it is not hard to identify the benefits associated with the proposed Amending Rules, it is difficult to quantify them given that the impact on investors will differ due to their own unique circumstances.

Approach to Cost-Benefit Assessment

The IMO acknowledged that it is responsible for making judgements on the impacts of proposed rule changes. Given the nature of the information available in this case the IMO concluded that it would not be feasible to undertake a quantitative assessment of the costs relative to the benefits. This is due to the fact that there would be many subjective judgements involved and some of the benefits, in particular, would be difficult to quantify. As a result of these restrictions, the costs and benefits have been assessed largely on a qualitative basis, relative to the current situation.

To assess the costs and benefits associated with shifting the window of entry for new capacity into the market relative to the current situation, the IMO considered the likely costs and benefits resulting from the proposed Amending Rules. The following table identifies the main issues for evaluation.

Costs	
Payment Costs	The costs to Market Customers of higher amounts of Capacity Credit payments
Operational Costs	The costs to Market Generators associated with the earlier entry into the market
Set-up and Transition Costs	The costs to change the IMO's operating systems and transition from the current arrangements
Governance Costs	The costs to the WEM of amending the Market Rules and overseeing the implementation of any necessary changes

Benefits	
Reliability Benefits	The benefits to Market Customers associated with earlier availability of new capacity ready for the Hot Season
Reduction in SRC Risks	The benefits to Market Customers of reducing the risk of funding SRC

Financial Benefits	The benefits to Market Generators of an earlier income stream and reduced potential for Capacity Cost Refunds
Investment Benefits	The benefits to Market Generators associated with reduced risk and of increased investment to the WEM

The costs assessed are generally tangible costs that can be quantified in monetary terms with some confidence, as was presented in the IMO's initial analysis (this was presented in the IMO's Rule Change Proposal and replicated in Appendix 1 of the Draft Rule Change Report). The benefits, on the other hand, are generally less tangible and difficult to assign a monetary value.

Therefore the IMO developed an impact assessment framework to facilitate the development of an overall assessment of the costs and benefits relative to the current situation. The impact assessment framework uses the following ranges:

Impact	Impact Description
None	No material difference relative to the current situation
Minor	A small difference relative to the current situation
Material	A reasonably material difference relative to the current situation
Major	A reasonably large difference relative to the current situation
Significant	A very large difference relative to the current situation

Assessing the Costs and Benefits

The outcomes from the assessment of the costs and benefits are outlined in the following two tables:

Table 1: Costs associated with shifting the window of entry into the market

Cost	*Description of costs (relative to current situation)*	*Impact*
Payment Costs	Funding Capacity Credit payments for the proposed potential extra two months will result in an increase in the average costs to the market. These costs are determined based on a number of variables including the level of economic growth achieved in Western Australia and the growth in capacity. Given the current economic outlook it is unlikely that there will be a high growth scenario achieved prior to the 2010/11 capacity year. Note that the IMO undertook a quantitative assessment of the potential average exposure to the market prior to submitting RC_2009_11 based on economic growth forecasts, expectations of the Maximum Reserve Capacity	Material

Cost	Description of costs (relative to current situation)	Impact
	Price (MRCP) and the expected generation growth for the 2010/11 capacity year. Further details of the IMO's initial assessment are presented in Appendix 1.	
Operational Costs	<u>Network Connection Costs</u> Shifting the window of entry into the market by two months will increase the costs associated with new Facilities connecting to the network. However, Western Power estimates the increased costs for connection are only very minor when compared to the current situation. Furthermore, transmission costs are already incorporated in the IMO's calculation of Maximum Reserve Capacity Price (MRCP). There are potential costs for generators who applied for access based on the current dates of entry into the market. In particular, new entrant generators may not be able to move their connection dates forward and so be unable to take advantage of the proposed rule changes. New entrant generators will however be better off financially than under the current Market Rules as they will be making Capacity Cost Refunds at a lower rate than they were paid for the Capacity Credits. <u>Fuel Costs</u> There are potential increases in the costs associated with storing diesel and renegotiating gas contracts for the two months[1]. However, given that new entrant generators will be receiving an income stream over this period there will not be a financial impact. Overall, given the regulatory considerations associated with proposing the rule changes for the 20011/12 capacity year there will be a small increase in the costs associated with network connection and fuel offset by improvements in Reserve Capacity reliability.	Minor
Set-up and Transition Costs	Shifting the window of entry between 1 June and 1 October will require some minor changes to the Wholesale Electricity Market Systems operated by the IMO.	Minor
Governance Costs	The proposed changes to the Market Rules would only have minor costs to the WEM in terms of the IMO's administration of the rule change process and commencement of Market Rules. These costs are no higher than those usually associated with a standard Rule Change Proposal. There are also minor costs associated with advising new entrant generators and/or potential investors of any changes	None

[1] Further details relating to the IMO's assessment of fuel costs is provided in CP_2009_01,

Cost	*Description of costs (relative to current situation)*	*Impact*
	to the Market Rules that may result from the Rule Change Proposal. There are no perceived costs in terms of IMO staffing associated with the proposed amendments as it is anticipated that any operational changes will be automated. The IMO perceives that these governance costs will have no material impact.	

Table 2 – Benefits associated with shifting the window of entry into the market

Benefit	*Description of benefits (relative to current situation)*	*Impact*
Reliability Benefits	The earlier entry of new entrant generators will reduce the risks to the market associated with bringing new capacity into the market in time for the Hot Season. In particular, the proposed changes incentivise earlier entry which will consequently mean a greater reliability of generation at peak times. Improvements in reliability will deliver benefits to consumers in terms of security of supply and reduce the risks of needing to call an SRC auction.	Material
Reduction in SRC risks	The earlier availability of capacity is expected to improve reliability, particularly over the Hot Season. This would reduce the risks to Market Customers of funding SRC in the event that an auction is called. Any potential SRC costs to the market will be reduced under the proposed changes. As there are large financial impacts to the market associated with calling SRC and uncertainty over the frequency of such events, the improvements in reliability of capacity will have a material impact on this risk in the market.	Material
Financial Benefits	Reduced Capacity Cost Refunds being repaid due to improved reliability of Facilities in time for the Hot Season, and the lower level of repayment between 1 October and 30 November will expect to result in a reasonable improvement in the financial situation of new entrant generators. Access to an earlier income stream will improve new entrant generator's financial security two. This may reduce the risks to the market of a new entrant generator not being able to meet its obligations.	Material
Investment Benefits	The availability of an earlier income stream and the potentially reduced risk associated with new projects may provide investment incentives for new investors to enter the Western Australian market. This will result in greater competition amongst generators	Minor

A summary of the of the IMO's assessment is provided in the following table:

Cost/Benefit	Impact
Payment Costs	Material
Operational Costs	Minor
Set-up and Transition Costs	Minor
Governance Costs	None
Total Costs	**Overall Minor**
Reliability Benefits	Material
Reduction in SRC risks	Material
Financial Benefits	Material
Investment Benefits	Minor
Total Benefits	**Overall Material**

On the whole the analysis of the costs and benefits suggests that the proposed rule change is likely to have an overall material benefit for a minor total cost overall relative to the current situation. When assessing proposals of this nature it is easier to quantify the costs associated with the Rule Change Proposal than the benefits associated with the reduction in risk to the market.

The benefits resulting from the Rule Change Proposal are anticipated to outweigh the increase in costs that would be expected relative to the current situation and are supportive of shifting the window of entry into the RCM to 1 June.