



Draft Rule Change Report
Title: Transparency of Capacity Credit
Allocation

Ref: RC_2009_17
Standard Rule Change Process

Date: 17 July 2009

CONTENTS

1.	INTRODUCTION	4
2.	CALL FOR SECOND ROUND SUBMISSIONS	5
3.	THE RULE CHANGE PROPOSAL.....	5
3.1	Submission Details.....	5
3.2	Details of the Proposal	5
3.3	The Proposal and the Wholesale Market Objectives	6
3.4	Amending Rules proposed by the IMO	6
3.5	The IMO's Initial Assessment of the Proposal	6
4.	FIRST SUBMISSION PERIOD.....	6
4.1	Submissions received	7
4.1.1	Submission from Alinta.....	7
4.1.2	Submission from Griffin Energy	7
4.1.3	Submission from LGP	7
4.1.4	Submission from Synergy	8
4.2	Public Forums and Workshops	8
5.	THE IMO'S ASSESSMENT	8
5.1	Wholesale Market Objectives.....	8
5.2	Practicality and Cost of Implementation.....	10
5.3	Views expressed in submissions	10
5.4	Market Advisory Committee	10
6.	THE IMO'S DRAFT DECISION	11
6.1	Reasons for the decision.....	11
7.	PROPOSED AMENDING RULES.....	11

DOCUMENT DETAILS

IMO Notice No.: RC_2009_17
Report Title: Draft Rule Change Report: Transparency of Capacity Credit Allocation
Release Status: Public
Confidentiality Status: Public domain
http://www.imowa.com.au/Attachments/RuleChange/RuleChange_2009_17.html.

Published in accordance with Market Rule 2.7.6

Independent Market Operator

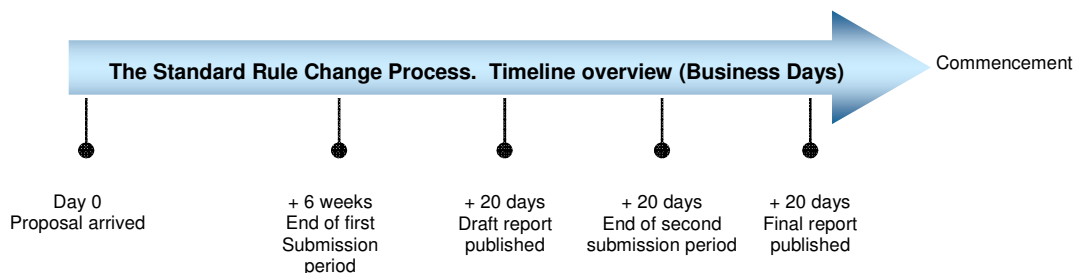
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1. INTRODUCTION

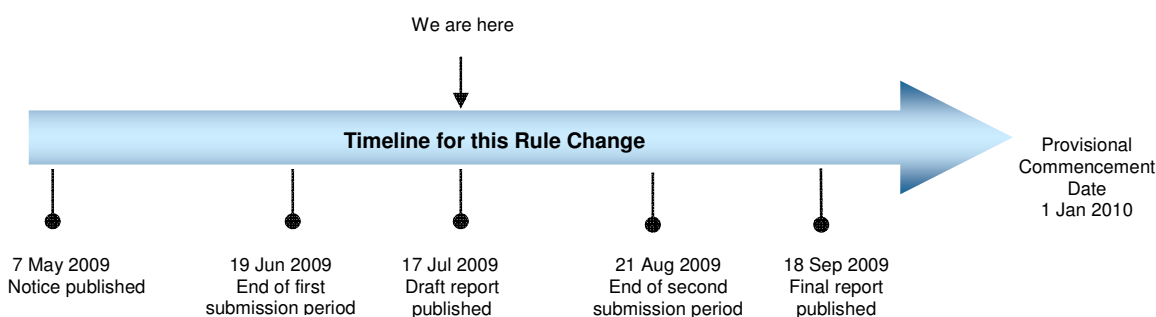
On 5 May 2009, Independent Market Operator (IMO) submitted a Rule Change Proposal regarding the amendment of clause 10.5.1(f)(iv) in the Wholesale Electricity Market Rules (Market Rules).

This Rule Change Proposal is being processed using the Standard Rule Change Process, described in Section 2.7 of the Market Rules.

The standard process adheres to the following timelines:



The key dates in processing this Rule Change Proposal are:



Please note the commencement date is provisional and may be subject to change in the Final Rule Change Report.

In making its draft 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 submissions received during the first submission period; and
- the views of the Market Advisory Committee (MAC).

The IMO's draft decision is to accept the Rule Change Proposal in the modified form outlined in Section 7 of this Report.

All documents related to this Rule Change Proposal can be found on the IMO website: http://www.imowa.com.au/Attachments/RuleChange/RuleChange_2009_17.html.

2. CALL FOR SECOND ROUND SUBMISSIONS

The IMO invites interested stakeholders to make submissions on this Draft Rule Change Report. The submission period is 20 Business Days from the publication date of this Report. Submissions must be delivered to the IMO by 5:00pm on **Friday 21 August 2009**.

The IMO prefers to receive submissions by email to market.development@imowa.com.au using the submission form available on the IMO website:

http://www.imowa.com.au/10_5_1_b_rule_change_proposal.htm

Submissions may also be sent to the IMO by fax or post, addressed to:

Independent Market Operator
 Attn: Manager Market Development and System Capacity
 PO Box 7096
 Cloisters Square, PERTH, WA 6850
 Fax: (08) 9254 4399

3. THE RULE CHANGE PROPOSAL

3.1 Submission Details

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Address:	Level 3, 197 St Georges Tce, Perth, WA 6000
Date submitted:	5 May 2009
Urgency:	Standard Rule Change Proposal
Change Proposal title:	Transparency of Capacity Credit Allocation
Market Rules affected:	Clause 10.5.1 (f) (iv)

3.2 Details of the Proposal

Each year, the IMO assigns Capacity Credits to generation and Demand Side Management Facilities to meet the Reserve Capacity Requirement. In accordance with clause 10.5.1(f) (iv) of the Market Rules the number of Capacity Credits held by each supplier, for each Reserve Capacity Year, is published as public information on the IMO website. An example of this can be found at:

http://www.imowa.com.au/Attachments/RC_Attachments/SummaryofCapacityCreditsfor2008ReserveCapacityCycle.pdf

Currently, the IMO publishes the aggregated number of Capacity Credits assigned to each Market Participant. For Market Participants with only one Facility, this will represent the size of that Facility. For Market Participants with multiple Facilities, the aggregated information for a portfolio of generation and DSM capacity represents a lower level of transparency.

In the interests of increasing the level of transparency and for the avoidance of discrimination, the IMO proposed to publish the amount of Capacity Credits held in relation to each Facility, rather than a summary for each Market Participant as is the current practice.

3.3 The Proposal and the Wholesale Market Objectives

The IMO's assessment on how these amendments will allow the Market Rules to better address the Wholesale Market Objectives is contained in section 5.1 of this report.

3.4 Amending Rules proposed by the IMO

The amendments to the Market Rules proposed by the IMO are outlined below (added text, ~~deleted text~~):

10.5.1. The IMO must set the class of confidentiality status for the following information under clause 10.2.1, as Public and the IMO must make each item of information available from the Market Web-Site after that item of information becomes available to the IMO:

...

(f) the following Reserve Capacity information (if applicable):

- i. Requests for Expressions of Interest described in clause 4.2.3 for the previous five Reserve Capacity Cycles;
- ii. the summary of Requests for Expressions of Interest described in clause 4.2.7 for the previous five Reserve Capacity Cycles;
- iii. the Reserve Capacity Information Pack published in accordance with clause 4.7.2 for the previous five Reserve Capacity Cycles;
- iv. ~~the total amount of Capacity Credits held by each supplier of Capacity Credits;~~ For each Market Participant holding Capacity Credits, the amount of Capacity Credits held in relation to each Facility for each Reserve Capacity Cycle;
- v. the identity of each Market Participant from which the IMO procured Capacity Credits in the most recent Reserve Capacity Auction, and the total amount procured, where this information is to be published by January 7th of the year following the Reserve Capacity Auction;

...

3.5 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.

The details of the IMO's assessment of the Rule Change Proposal against the market objectives were published in the Rule Change Notice on 7 May 2009.

4. FIRST SUBMISSION PERIOD

The first submission period for this Rule Change Proposal was between 8 May 2009 and 19 June 2009.

4.1 Submissions received

The IMO received submissions on the Rule Change Proposal from Alinta, Griffin Energy, Landfill Gas & Power (LGP) and Synergy. The submissions are summarised below, and the full text is available on the IMO website.

4.1.1 Submission from Alinta

Alinta supported the rule change as it would increase the level of transparency with respect to the number of Capacity Credits held by individual Facilities. In the longer term, Alinta noted that this additional transparency is likely to assist the efficient and effective operation of the market.

The Rule Change Proposal and the Wholesale Market Objectives

Alinta considered that the Market Rules, as proposed to be amended or replaced by RC_2009_17, are likely to be consistent with Wholesale Market Objectives (a), (b) and (d).

Further Alinta posited that the proposal RC_2009_17 is unlikely to be inconsistent with market objectives (c) and (e).

4.1.2 Submission from Griffin Energy

Griffin supported the rule change as a sensible measure for promoting transparency while not compromising participant confidentiality. Griffin also noted that it enhances competition and efficient investment in the market.

The Rule Change Proposal and the Wholesale Market Objectives

Griffin considered that the Rule Change Proposal will provide a more transparent market and enhance market objectives (a), (b) and (c):

- Market objective (a): will encourage more efficient investment by generation (and DSM) proponents, leading to greater efficiency in the supply of electricity;
- Market objective (b): will allow a greater number of potential generation investors to enter the market, thus encouraging competition among generators; and
- Market objective (c): will better allow competing generation technologies and options to find appropriate positions within the sector, thus lessening any discrimination against these options that may have existed due to a lack of transparency.

Griffin contended that the Rule Change Proposal is consistent with the Wholesale Market Objectives.

4.1.3 Submission from LGP

LGP supported the rule change on the grounds that it improves transparency and facilitates a better understanding of market segmentation and evolution. LGP requested publication of data since market start.

The Rule Change Proposal and the Wholesale Market Objectives

LGP agreed with the IMO’s contention that the proposed changes support market objectives (a), (b) and (c).

4.1.4 Submission from Synergy

Synergy supported this rule change. However, Synergy suggested that Curtailable Loads be published as a single value per registration for example, in the case of a Market Participant with a Demand Side Programme, the publication of Capacity Credits should be at the programme level, and not for each individual Curtailable Load comprising the programme. Synergy noted that, unlike generators, the list of Curtailable Loads may change considerably between registering the capacity commitment and supply during the Capacity Year.

4.2 Public Forums and Workshops

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

5. THE IMO’S ASSESSMENT

In preparing this Draft 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 Proposal.

This IMO’s assessment is outlined in the following sections.

5.1 Wholesale 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	Yes

Wholesale Market Objective	Consistent with objective
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	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 the Wholesale Market Objectives:

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

The proposed changes will allow the Market Rules to better address market objectives (a), (b) and (c). The IMO's assessment against these market objectives 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 submits that the proposed changes will support market objective (a) by creating greater transparency particularly around the publication of data and information. The IMO considers that the increased transparency may promote economically efficient investment decisions by the market as a whole.

(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 efficient entry of new competitors into the Reserve Capacity Market. This will be achieved by enabling existing and new Market Participants to better understand the composition of generation capacity within the market.

(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 will support market objective (c) by removing a discriminatory clause which currently only offers transparency to the market for small Market Participants.

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

5.2 Practicality and Cost of Implementation

The proposed changes require changes to the Wholesale Electricity Market Systems operated by the IMO. The cost of these changes is estimated to be AUD\$15,000.

The IMO does not consider that this proposal would lead to higher organisational or personnel costs as the IT solution would be automated.

There have been no other costs identified with the implementation of this Rule Change Proposal.

5.3 Views expressed in submissions

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

During the first submission period, the Amending Rules proposed by the IMO had the support of all parties.

LGP agreed with the Rule Change Proposal but requested the publication of data since market start. The IMO agrees that this will be useful information to Market Participants, however the IMO notes that it is unable to retrospectively apply Market Rules.

While Synergy supported the rule change, it was suggested that, for a Market Participant with a Demand Side Programme, the publication of Capacity Credits should be at the programme level, and not for each individual Curtailable Load comprising the programme. The IMO considers that Synergy's suggestion is practical as there are potentially many changes to Curtailable Loads within a Demand Side Programme.

5.4 Market Advisory Committee

The MAC was advised of the proposed rule change at its meeting on 29 April 2009. The MAC unanimously agreed to progress the Rule Change Proposal.

5.5 Additional amendments

Following the first public submission period the IMO considered some changes to the proposed Amending Rules as a result of Synergy's suggestion.

These changes are as follows (~~deleted text~~, added text):

10.5.1. The IMO must set the class of confidentiality status for the following information under clause 10.2.1, as Public and the IMO must make each item of information available from the Market Web-Site after that item of information becomes available to the IMO:

...

(f) the following Reserve Capacity information (if applicable):

- i. Requests for Expressions of Interest described in clause 4.2.3 for the previous five Reserve Capacity Cycles;

- ii. the summary of Requests for Expressions of Interest described in clause 4.2.7 for the previous five Reserve Capacity Cycles;
- iii. the Reserve Capacity Information Pack published in accordance with clause 4.7.2 for the previous five Reserve Capacity Cycles;
- iv. ~~For~~ for each Market Participant holding Capacity Credits, the amount of Capacity Credits held in relation to provided by each Facility for each Reserve Capacity Cycle; In the case of a Market Participant with a Demand Side Programme, the IMO must publish the total Capacity Credits for the programme and not for each Curtailable Load comprising the programme;
- v. the identity of each Market Participant from which the IMO procured Capacity Credits in the most recent Reserve Capacity Auction, and the total amount procured, where this information is to be published by January 7th of the year following the Reserve Capacity Auction;

...

6. THE IMO'S DRAFT DECISION

The IMO's draft decision is to accept the amendments to clause 10.5.1(f)(iv) of the Market Rules as proposed in the Rule Change Proposal and this report. The Amending Rules are outlined in section 7 of this report.

6.1 *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 the Wholesale Market Objectives (a), (b) and (c);
- Are consistent with the remaining Wholesale Market Objectives; and
- Have the support of both the MAC and all participants providing submissions during the first submission period.

Additional detail outlining the analysis behind the IMO's reason is outlined in Section 5 of this report.

7. PROPOSED AMENDING RULES

The IMO proposes to implement the following amendments to the Market Rules (added text, ~~deleted text~~):

- 10.5.1. The IMO must set the class of confidentiality status for the following information under clause 10.2.1, as Public and the IMO must make each item of information available from the Market Web-Site after that item of information becomes available to the IMO:

...

- (f) the following Reserve Capacity information (if applicable):

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- i. Requests for Expressions of Interest described in clause 4.2.3 for the previous five Reserve Capacity Cycles;
- ii. the summary of Requests for Expressions of Interest described in clause 4.2.7 for the previous five Reserve Capacity Cycles;
- iii. the Reserve Capacity Information Pack published in accordance with clause 4.7.2 for the previous five Reserve Capacity Cycles;
- iv. ~~the total amount of Capacity Credits held by each supplier of Capacity Credits; for each Market Participant holding Capacity Credits, the Capacity Credits provided by each Facility for each Reserve Capacity Cycle. In the case of a Market Participant with a Demand Side Programme, the IMO must publish the total Capacity Credits for the programme and not for each Curtailable Load comprising the programme;~~
- v. the identity of each Market Participant from which the IMO procured Capacity Credits in the most recent Reserve Capacity Auction, and the total amount procured, where this information is to be published by January 7th of the year following the Reserve Capacity Auction;