

The background of the lower half of the page is a photograph of a wind farm and power lines, overlaid with a semi-transparent blue filter. On the left, several large white wind turbines are visible, their blades extending outwards. On the right, a tall metal lattice tower for high-voltage power lines stands prominently, with several power lines stretching across the frame. The overall scene is set against a clear sky.

Independent Market Operator

**Final Rule Change Report:
Transparency of Capacity Credit
Allocation**

Ref: RC_2009_17

Date: 18 September 2009

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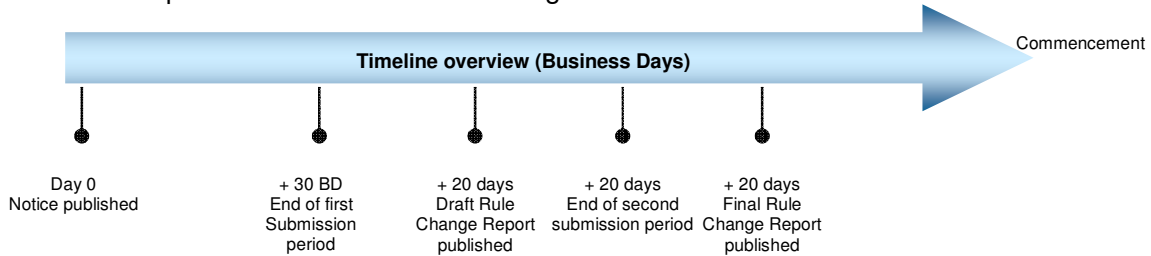
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1. INTRODUCTION

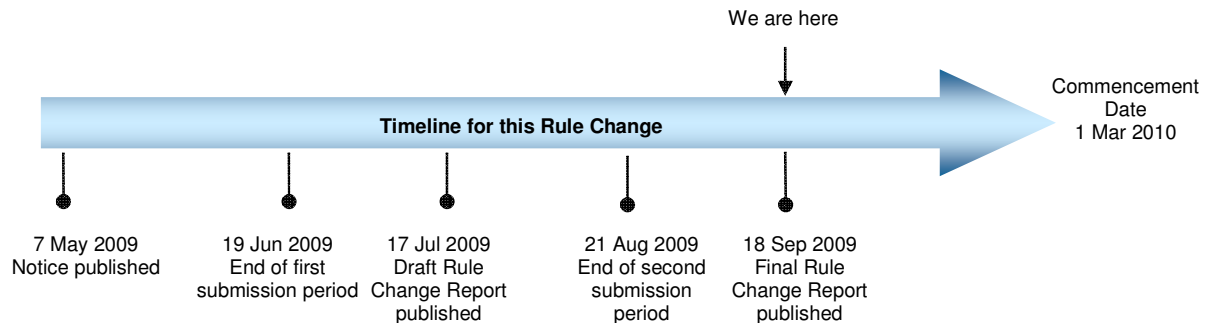
On 5 May 2009, the Independent Market Operator (IMO) submitted a Rule Change Proposal regarding the amendment of clause 10.5.1(f)(iv) of the Wholesale Electricity Market Rules (Market Rules).

This Rule Change Proposal was 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:



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 7 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/RC_2009_17.

2. THE RULE CHANGE PROPOSAL

2.1 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 Rule(s) affected:	Clause 10.5.1(f)(iv)

2.2 Summary Details of the Proposal

This Rule Change Proposal increases the level of transparency of Capacity Credits held in relation to each Facility, rather than providing a summary for each Market Participant as is the current practice.

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.

2.3 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 7.1 of this report.

2.4 The Amending Rules Proposed by the IMO

The IMO proposed the following amendments to the Market Rules (~~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. ~~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;

...

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.

Further 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.

3. FIRST SUBMISSION PERIOD

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

3.1 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.

3.1.1 Submission from Alinta

Alinta supported the rule change as it will 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).

3.1.2 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 Demand Side Management) 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.

3.1.3 Submission from Landfill Gas & Power

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).

3.1.4 Submission from Synergy

Synergy supported the Rule Change Proposal in its submission. 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 (DSM), 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.

3.2 Public Forums and Workshops

No public forums or workshops were held in relation to this Rule Change Proposal during the first submission period.

3.4 Additional Amendments

Following the first public submission period, the IMO considered that some changes to the proposed Amending Rules were required to address the practicality issues associated with listing all Curtailable Loads for a DSM programme. These changes are as follows (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. ~~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;

...

4. THE IMO'S DRAFT ASSESSMENT

The IMO's draft assessment, as contained in the Draft Rule Change Report, is available 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 to accept the proposed amendment to clause

10.5.1(f)(iv) of the Market Rules as proposed in the Rule Change Proposal and amended following the first submission period.

The IMO 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.

6. SECOND SUBMISSION PERIOD

Following the publication of the Draft Rule Change Report on the IMO website, the second submission period was between 20 July 2009 and 21 August 2009.

The IMO received formal submissions from LGP and Synergy during the second submission period. The submissions are summarised below, with the full text available on the IMO website.

6.1 Submission from Landfill Gas & Power

LGP supported the IMO's analysis provided in the Draft Rule Change Report and its decision to proceed with the modified Rule Change providing for DSM to be listed at the programme level.

6.2 Submission from Synergy

Synergy supported the Rule Change Proposal ensuring that Capacity Credits held by each Market Participant in relation to each Facility is published by the IMO. Synergy noted that this will increase the level of transparency with respect to the number of Capacity Credits held by individual Facilities.

In particular, Synergy noted that it is pleased that the Rule Change Proposal provides for Capacity Credits of a DSM programme to be published at an aggregated value rather than for each Curtailable Load. Synergy noted that the list of Curtailable Loads may change considerably between registering the capacity commitment and supply during the Capacity Year.

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 Proposal and that no technical studies have been determined necessary to assist in assessing the Rule Change Proposal.

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 Objective:

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).

7.2 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.

7.3 Views expressed in submissions

First Submission Period

During the first submission period, Alinta, Griffin, LGP and Synergy made submissions. The Amending Rules proposed by the IMO had the general support of all parties.

LGP agreed with the Rule Change Proposal but requested the publication of data since market start. The IMO agreed that this will be useful information to Market Participants, however the IMO noted 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 considered that Synergy's suggestion is practical as there are potentially many changes to Curtailable Loads within a Demand Side Programme.

Second Submission Period

During the second submission period, LGP and Synergy made submissions in support of the rule change. In particular, Synergy noted that it was pleased with the outcome that Capacity Credits will be published at the DSM programme level.

7.4 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.

8. THE IMO'S FINAL DECISION

The IMO's final decision is to accept the proposed amendments to clause 10.5.1 (f) (iv) of the Market Rules as outlined 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 the Wholesale Market Objective (a), (b) and (c);
 - Are consistent with the remaining Wholesale Market Objectives;
 - Have minor costs associated with the implementation;
 - Have taken the views of participants into consideration during the first submission period; and

- Have the support of all participants providing submissions during the second 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 January 2010**.

9.2 Amending Rules

The following clauses are amended (~~deleted text~~, new 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 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;

APPENDIX 1: FULL 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/f180,2556/2556_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.