

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 white wind turbines are visible, with their blades extending outwards. On the right, a tall metal lattice tower for power lines stands prominently. The overall scene is set against a clear sky.

Independent Market Operator

Rule Change Notice

**Title: Updates to Reserve
Capacity Obligation
Provisions**

Ref: RC_2010_16

Fast-Track Rule Change Process

Date: 1 July 2010

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1. THE RULE CHANGE PROPOSAL

1.1. The Submission

On 30 June 2010 the Independent Market Operator (IMO) submitted a Rule Change Proposal regarding amendments to clauses 4.1.26 and 4.26.1A of the Wholesale Electricity Market Rules (Market Rules).

This Rule Change Notice is published according to clause 2.5.7 of the Market Rules, which requires the IMO to publish a notice when it has developed a Rule Change Proposal.

1.1.1 Submission details

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Date submitted:	30 June 2010
Urgency:	High
Change Proposal title:	Updates to Reserve Capacity Obligation Provisions
Market Rule(s) affected:	4.1.26 and 4.26.1A

1.2. Details of the Proposal

Background

The IMO has recently implemented a number of amendments to the Market Rules relating to the entry of new participants into the South West interconnected system (SWIS):

- Changing the Window of Entry into the Reserve Capacity Mechanism (RC_2009_11); and
- Updates to Commissioning Provisions (RC_2009_08).

Further details of the specific amendments which resulted from these Rule Change Proposals are provided below.

Changing the Window of Entry into the Reserve Capacity Mechanism (RC 2009 11)

This Rule Change Proposal, which commenced 1 December 2009, shifted the four month window in which new capacity can enter the Reserve Capacity Mechanism after commissioning. This shift was from 1 August – 30 November to 1 June – 1 October of the relevant Capacity Year for the 2010 Reserve Capacity Cycle onwards.

Clause 4.1.26 of the Market Rules was amended to state that for Reserve Capacity Cycles from 2010 onwards Market Participants' Reserve Capacity Obligations would apply from the Trading Day commencing:



- 1 October of Year 3, for Facilities that were previously commissioned; or
- from the Trading Day commencing on the scheduled date of commissioning, for Facilities commissioned between 1 June and 1 October of Year 3.

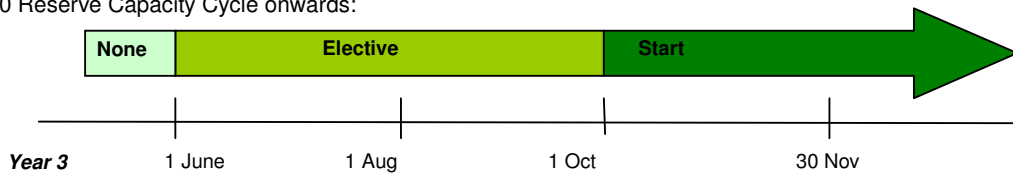
This amendment to the window of entry for facilities undertaking commissioning is represented diagrammatically below:

Reserve Capacity Market Obligations for new generating systems

Reserve Capacity Cycles up to and including 2009:



2010 Reserve Capacity Cycle onwards:



Further details regarding RC_2009_11 are available on the IMO's webpage: http://www.imowa.com.au/RC_2009_11

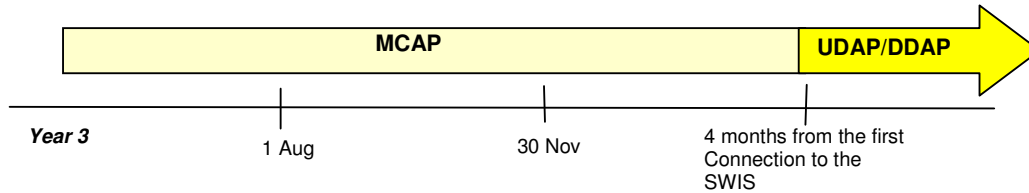
Updates to Commissioning Provisions (RC 2009_08)

This Rule Change Proposal, which commenced 1 June 2010, introduced the concept of allowing for late commissioning in the Market Rules. In particular, new generators can now conduct Commissioning Tests post 30 November (for the 2010 Capacity Year onwards) for a period of up to four months from first connection to the SWIS without:

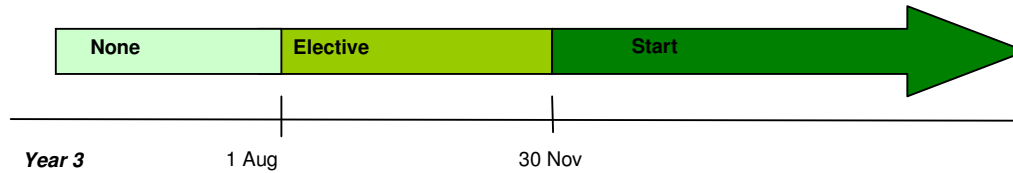
- needing to operate in the energy market;
- submitting Resource Plans; or
- being subject to UDAP and DDAP payments.

The proposal also separated the treatment of the Reserve Capacity Market and the energy market for new entrants as follows (for the 2010 Capacity Year onwards):

Energy Market Payments



Reserve Capacity Market Obligations



Clause 4.1.26 of the Market Rules specifies when Reserve Capacity Obligations apply for generating systems. In order to accommodate the shift in the window of entry (which commenced 1 December 2009) this Rule Change Proposal amended this clause to introduce the concept of late commissioning after 1 October in Year 3 of the Reserve Capacity Cycle for the 2010 Reserve Capacity Cycle onwards. Likewise clause 4.26.1A, which relates to the calculation of Forced Outage refunds, was amended to make the Forced Outage Shortfall 100 percent of the Capacity Credits assigned to the relevant new generating system in the case where it:

- will still be undertaking an approved Commissioning Test after 1 October (that is they have already begun commissioning); and
- has yet to have commenced operation and will have a Commissioning Test Period after 1 October (that is it will be late commissioning).

Further details regarding RC_2009_08 are available on the IMO's webpage: http://www.imowa.com.au/RC_2009_08

Issue with clause 4.1.26

Under the current drafting of clause 4.1.26 it is unclear when the Reserve Capacity Obligations apply for new generating systems for Reserve Capacity Cycles up to and including 2009. That is for late commissioning generators entering the market during the 2010 – 2011 Capacity Years (Year 3 of the 2008 and 2009 Reserve Capacity Cycles), it is not clear that there Reserve Capacity Obligations will apply from 30 November of Year 3.

Issue with clause 4.26.1A

The current methodology for calculating the Forced Outage refund for each facility does not distinguish between when Reserve Capacity Obligations apply for Reserve Capacity Cycles up to and including 2009 (30 November) and from 2010 onwards (1 October). Consequently

generating systems entering the market during the 2010 and 2011 Capacity Years will have Forced Outage refunds calculated for each facility from 1 October onwards despite their Reserve Capacity Obligations not applying until 30 November of Year 3.

Proposal

This Rule Change Proposal seeks to clarify when Reserve Capacity Obligations apply for late commissioning facilities with regard to the changed window of entry into the Reserve Capacity Mechanism from the 2010 Capacity Year onwards. To correct these identified issues, the IMO proposes to amend the drafting as follows:

- Clause 4.1.26 – to specify that for Reserve Capacity Cycles up to and including 2009, Reserve Capacity Obligations will apply from 30 November of Year 3 for new generating systems undertaking late Commissioning Tests; and
- Clause 4.26.1A – to specify that a Forced Outage refund will be calculated for generating systems either currently undergoing approved Commissioning Tests or which will be undertaking late Commissioning Tests from:
 - 30 November of Year 3 for Reserve Capacity Cycles up to an including 2009; and
 - 1 October of Year 3 for Reserve Capacity Cycles from 2010 onwards.

1.3. The Proposal and the Wholesale Market Objectives

The IMO considers that the proposed changes, which correct a manifest error in the current Market Rules, are consistent with the Wholesale Market Objectives.

2. WHETHER THE PROPOSAL WILL BE PROGRESSED FURTHER

The IMO has decided to process this Rule Change Proposal using the Fast Track Rule Change Process, described in section 2.6 of the Market Rules, on the basis that it satisfies the criteria in clauses 2.5.9(a) and 2.5.9(b) of the Market Rules. Clause 2.5.9 states:

The IMO may subject a Rule Change Proposal to the Fast Track Rule Change Process if, in its opinion, the Rule Change Proposal:

- (a) is of a minor or procedural nature; or*
- (b) is required to correct a manifest error; or*
- (c) is urgently required and is essential for the safe, effective and reliable operation of the market or the SWIS.*

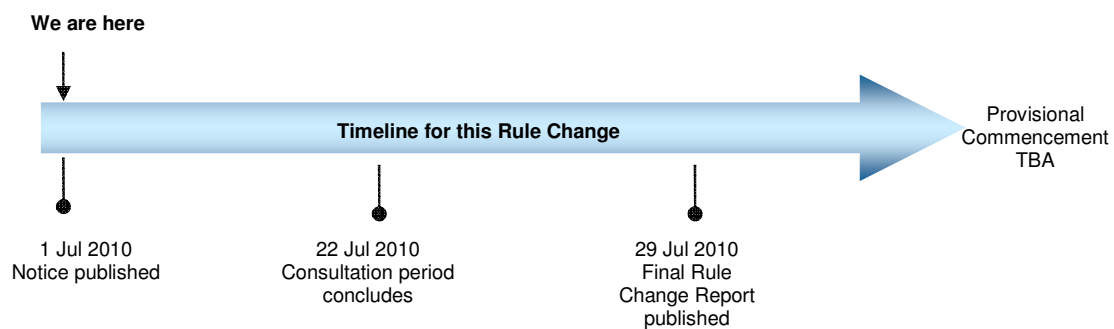
The IMO considers that the proposed changes will correct a manifest error which for Reserve Capacity Cycles up to and including 2009 will result in a Forced Outage refund being calculated

for facilities from 1 October, despite their capacity obligations not commencing until 30 November. The IMO considers that this was an oversight which requires correction to ensure consistency with the original intent of both RC_2009_08 and RC_2009_11.

The proposal also includes a minor correction to amend the drafting of clause 4.1.26, to clarify the dates by which Reserve Capacity Obligations apply for new generating systems undertaking late Commissioning Tests during Reserve Capacity Cycles up to and including 2009. It does not seek to amend the operation of the Market Rules and is consistent with the intent of RC_2009_11.

As such the IMO considers that the proposal fulfils both sub-clause 2.5.9(a) and 2.5.9(b) and therefore maybe be fast-tracked.

The projected timeline for processing this proposal is:



3. CALL FOR SUBMISSIONS

Any Rule Participant wishing to be consulted regarding this Rule Change Proposal is invited to notify the IMO within 5 Business Days of this notice being published (**8 July 2010**).

The consultation period is 15 Business Days from the publication date of this Rule Change Notice. Submissions must be delivered to the IMO by 5.00pm on **Thursday 22 July 2010**.

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/rule-changes>

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

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

Fax: (08) 9254 4399



4. PROPOSED AMENDING RULES

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

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) 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; and
 - iii. from the Trading Day commencing on 30 November of Year 3, for new generating systems undertaking Commissioning Tests after 30 November of Year 3; and
- (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;



- 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; and
- iii. from the Trading Day commencing on 1 October of Year 3, for new generating systems undertaking Commissioning Tests after 1 October of Year 3.

4.26.1A. The IMO must calculate the Forced Outage refund for each Facility (“**Facility Forced Outage Refund**”) as the lesser of:

(a) the sum over all Trading Intervals t in Trading Month m of the product of:

- i. the Off-Peak Trading Interval Rate or Peak Trading Interval Rate determined in accordance with the Refund Table applicable to Trading Interval t ; and
- ii. the Forced Outage Shortfall in Trading Interval t ,

where the Forced Outage Shortfall for a Facility is equal to which ever of the following applies:

- iii. if the Facility is required to have submitted a Forced Outage under clause 3.21.4, the Forced Outage in that Trading Interval measured in MW; or
- iv. if the Facility is an Intermittent Facility which is deemed to have not been commissioned, for the purposes of clause 4.26.1, the number of Capacity Credits associated with the relevant Intermittent Facility; or
- v. if, from the Trading Day commencing on 30 November of Year 3 for Reserve Capacity Cycles up to and including 2009 or 1 October of Year 3 for Reserve Capacity Cycles from 2010 onwards, the Facility is undergoing an approved Commissioning Test and, for the purposes of permission sought under clause 3.21A.2, is a new generating system, the number of Capacity Credits associated with the relevant Facility; or
- vi. if, from the Trading Day commencing on 30 November of Year 3 for Reserve Capacity Cycles up to and including 2009 or 1 October of Year 3 for Reserve Capacity Cycles from 2010 onwards, the Facility is



not yet undergoing an approved Commissioning Test and, for the purposes of permission sought under clause 3.21A.2, is a new generating system, the number of Capacity Credits associated with the relevant Facility; and

- (b) the total value of the Capacity Credit payments associated with the relevant Facility paid or to be paid under these Market Rules to the relevant Market Participant for the 12 Trading Months commencing at the start of the Trading Day of the most recent 1 October, assuming the IMO acquires all of the Capacity Credits associated with that Facility and the cost of each Capacity Credit so acquired is determined in accordance with clause 4.28.2(b), (c) and (d) (as applicable), less all Facility Forced Outage Refunds applicable to the Facility in previous Trading Months falling in the same Capacity Year.

5. ABOUT RULE CHANGE PROPOSALS

Any person (including the IMO) may make a Rule Change Proposal by completing a Rule Change Proposal Form and submitting this to the IMO (Clause 2.5.1 of the Market Rules).

The IMO will assess the proposal and, within 5 Business Days of receiving the proposal form, will notify the proponent whether the proposal will be progressed further.

In order for the proposal to be progressed the change proposal must explain how it will enable the Market Rules to better contribute to the achievement of the Wholesale Market Objectives. The market objectives are:

- (a) to promote the economically efficient, safe and reliable production and supply of electricity and electricity related services in the South West interconnected system;
- (b) to encourage competition among generators and retailers in the South West interconnected system, including by facilitating efficient entry of new competitors;
- (c) to avoid discrimination in that market against particular energy options and technologies, including sustainable energy options and technologies such as those that make use of renewable resources or that reduce overall greenhouse gas emissions;
- (d) to minimise the long-term cost of electricity supplied to customers from the South West interconnected system; and
- (e) to encourage the taking of measures to manage the amount of electricity used and when it is used.

A Rule Change Proposal can be processed using a Standard Rule Change Process or a Fast Track Rule Change Process. The standard process involves a combined 10 weeks public submission period, while the fast track process involves the IMO consulting with Rule Participants who either advise the IMO that they wish to be consulted or the IMO considers have an interest in the change.

