



INDEPENDENT
MARKET
OPERATOR

Draft Rule Change Report

Title: Assignment of Capacity Credits to
Network Control Facilities

RC_2012_03

Standard Rule Change Process

Date: 11 June 2013

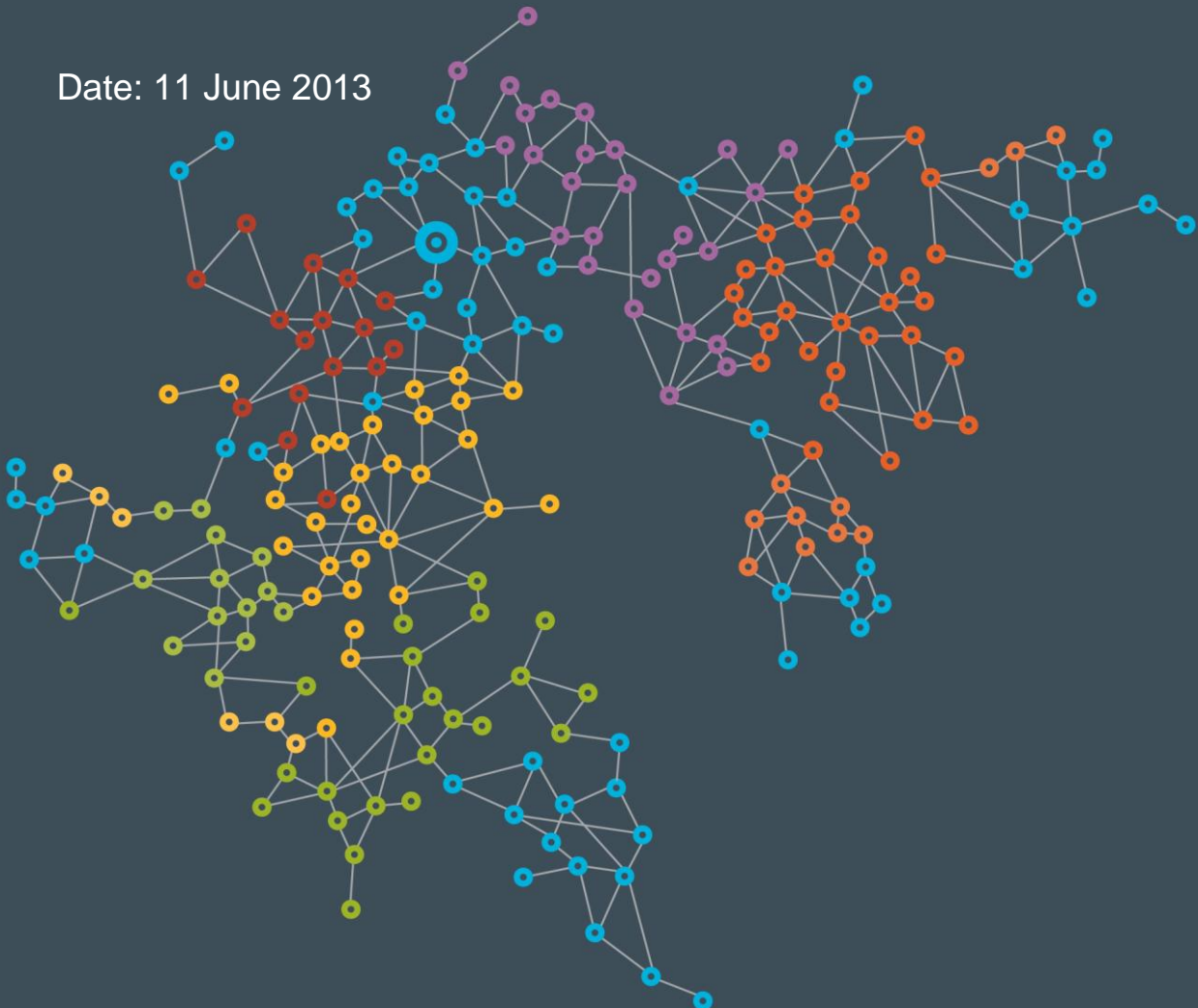


TABLE OF CONTENTS

1. Rule Change Process and Timetable.....	6
2. Call for Second Round Submissions.....	6
3. Proposed Amendments	6
3.1. The Rule Change Proposal.....	6
3.2. The IMO’s Initial Assessment of the Rule Change Proposal	8
4. Consultation	8
4.1. The Market Advisory Committee.....	8
4.2. Workshop with key stakeholders.....	9
4.3. Submissions received during the first submission period	10
4.4. The IMO’s response to submissions received during the first submission period ..	11
4.5. Public Forums and Workshops	15
5. The IMO’s Draft Assessment.....	15
5.1. Additional Amendments to the proposed Amending Rules.....	15
5.2. Wholesale Market Objectives	15
5.3. Practicality and cost of implementation	16
6. The IMO’s Proposed Decision.....	17
6.1. Reasons for the decision	17
6.2. Proposed Commencement details	17
7. Proposed Amending Rules.....	17

Executive Summary

Proposed amendments

A Network Control Service (NCS) is a service provided by generation or demand side management that can act as a substitute for transmission or distribution network upgrades (clause 5.1.1). An NCS is provided by a Facility in accordance with an NCS Contract, which exists between the relevant Market Participant and the Network Operator.

NCS Facilities are capable of simultaneously providing network support, deferring the need for network expenditure, and providing Reserve Capacity to the market, either in the form of reduced demand or additional generation capacity. Further, these Facilities may be capable of providing this Reserve Capacity to the market in times when the NCS is not required by the network.

Due to an oversight in the Market Rules, although both NCS Facilities and Facilities which are associated with a pre-existing Long Term Special Price Arrangement (LT-SPA) may be assigned Certified Reserve Capacity (CRC), neither is assigned Capacity Credits for their Certified Reserve Capacity under clause 4.20.5A. The lack of assignment of Capacity Credits can result in a number of perverse and inefficient outcomes such as an inability for the IMO to include this capacity in the calculation of Reserve Capacity Requirement potentially resulting in a false shortfall; and potentially inequitable treatment of new and existing Facilities that enter an NCS Contract.

The IMO submitted this Rule Change Proposal to amend the Market Rules so that both Facilities that are subject to an NCS Contract and those that are associated with a pre-existing LT-SPA with Certified Reserve Capacity are automatically assigned Capacity Credits. A number of additional amendments are also proposed that ensure the assigned capacity is properly considered in the Reserve Capacity Mechanism.

The IMO also proposes a number of amendments to address incorrect clause references and minor and typographical errors.

Consultation

The Pre Rule Change Proposal was presented to the Market Advisory Committee (MAC) at the 18 April 2012 meeting. A number of issues were discussed at the meeting including the appropriateness of providing Capacity Credits to an NCS Facility, the role of an NCS contract and Capacity Credits as inputs into Western Power's assessment of network solutions and whether the costs for an NCS should be borne by the loads causing the need to the network upgrade.

Following the presentation, the IMO clarified the view that it considered that providing NCS Facilities with Capacity Credits is appropriate to ensure their inclusion in the total amount of capacity available to the market. However, the IMO would consider the treatment of NCS Facilities further and present a revised proposal at a future MAC meeting.

On 7 February 2013, the IMO, Western Power, the Economic Regulation Authority and the Public Utilities Office met to discuss the issues raised at the MAC and a number of practical aspects of the implementation of the Pre Rule Change Proposal.

A revised proposal was presented to the MAC at the 20 March 2013 meeting. Western Power also presented how Capacity Credits are taken into account in assessing investment options to address network constraints. At the conclusion of the discussion, the MAC agreed that the Pre Rule

Change Proposal should be formally submitted into the Standard Rule Change Process.

The Rule Change Proposal was submitted on 27 March 2013. The first submission period was held between 28 March and 13 May 2013. Submissions were received from Community Electricity, EnerNOC, ERM Power, Perth Energy, Synergy and Western Power. All submitters other than Synergy supported the Rule Change Proposal without further amendments.

Synergy agreed that Facilities under an LT-PSA should be automatically allocated capacity credits, but did not agree that this should apply to NCS Facilities.

Assessment against Wholesale Market Objectives

The IMO considers that the proposed amendments will improve the integrity of the Market Rules and better achieve Wholesale Market Objectives (a), (b) and (d) and are consistent with the remaining objectives.

Specifically, the proposed amendments will provide certainty to Market Participants that they will receive Capacity Credits for Certified Reserve Capacity that is subject to an NCS Contract or an LT-SPA. This will:

- encourage Market Participants to enter into NCS Contracts and locate in areas that assist the operation of the network, better promoting the economically efficient and reliable production and supply of electricity and electricity related services in the SWIS (Wholesale Market Objective (a));
- encourage and facilitate the entry of new capacity that will be subject to an NCS or an LT-SPA to the market, thereby increasing competition (Wholesale Market Objective (b)); and
- ensure that the long-term cost of electricity supplied is minimised by avoiding higher costs associated with procuring capacity in the event of a 'false' shortfall in capacity; and by reducing the overall cost of the combined network and energy costs by providing appropriate compensation and incentives for new Facilities that, by locating in a particular region, may avoid higher alternative network augmentation costs (Wholesale Market Objective (d)).

Practicality and cost of implementation

It is estimated that the required system development, testing and verification by the IMO will cost approximately \$15,000. No other significant costs were identified by stakeholders.

The proposed Amending Rules are intended to commence on 12 August 2013 to be in place for the 2013 Capacity Cycle. Following further analysis, the IMO has indicated that it is unlikely that the required system changes will be able to be implemented by this date. However, the IMO have developed an interim manual solution to allow the Proposed Rule Change to commence by this date.

No other issues relating to the practicality of implementation were identified.

The IMO proposed decision

The IMO's proposed decision is to accept the Rule Change Proposal.

Next steps

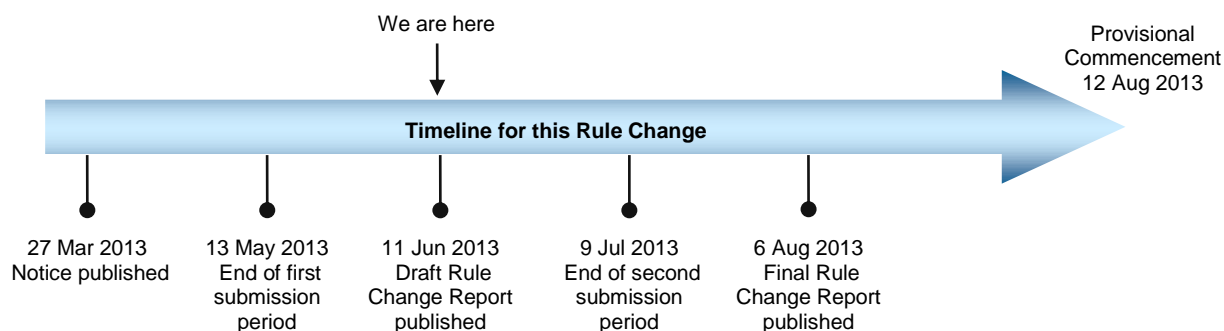
The IMO invites interested stakeholders to make submissions on this Draft Rule Change Report by **5:00 pm, Tuesday 9 July 2013**.

1. Rule Change Process and Timetable

On 27 March 2013, the IMO submitted a Rule Change Proposal regarding amendments to clauses 4.1.13, 4.13.9, 4.14.3, 4.14.10, 4.15.2 and 4.20.5A of the Wholesale Electricity Market (WEM) Rules (Market Rules).

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

The key dates in processing this Rule Change Proposal are:



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

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, Tuesday 9 July 2013**.

The IMO prefers to receive submissions by email (using the submission form available on the Market Web Site: <http://www.imowa.com.au/rule-changes>) to: market.development@imowa.com.au

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

Independent Market Operator

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

3. Proposed Amendments

3.1. The Rule Change Proposal

A Network Control Service (NCS) is a service provided by generation or demand side management that can act as a substitute for transmission or distribution network upgrades (clause 5.1.1). An NCS is provided by a Facility in accordance with an NCS Contract, which exists between the relevant Market Participant and the Network Operator.

NCS Facilities are capable of simultaneously providing network support, deferring the need for network expenditure, and providing Reserve Capacity to the market, either in the form of reduced demand or additional generation capacity. Further, these Facilities may be capable of providing this Reserve Capacity to the market in times when the NCS is not required by the network.

A Long Term Special Price Arrangement (LT-SPA) is designed to assist new Facilities entering the market in an auction situation to finance their project without bilateral contracts. Where capital costs of not less than 10 percent of the Maximum Reserve Capacity Price per MW are incurred in supplying new capacity, either from an upgrade of an existing Facility or from a new Facility, then that Facility is eligible for an LT-SPA. This allows the Market Participant to receive the (inflation adjusted) auction price it earns in the first year in each year the LT-SPA applies, which may be up to 10 years.

A holder of an LT-SPA is required to apply to have its capacity re-certified each year, and the guaranteed LT-SPA price will only be paid on the lesser of the capacity actually certified in each year and the original capacity upon which the LT-SPA was granted.

Due to an oversight in the Market Rules, although both NCS Facilities and Facilities which are associated with a pre-existing LT-SPA may be assigned Certified Reserve Capacity, neither are assigned Capacity Credits for their Certified Reserve Capacity in clause 4.20.5A. The lack of assignment of Capacity Credits can result in a number of perverse and inefficient outcomes. This includes an inability for the IMO to include this capacity in the calculation of Reserve Capacity Requirements potentially resulting in a false shortfall and potentially inequitable treatment of new and existing Facilities that enter an NCS Contract.

The Rule Change Proposal seeks to amend the Market Rules so that both Facilities that are subject to an NCS Contract and those that are associated with a pre-existing LT-SPA with Certified Reserve Capacity are automatically assigned Capacity Credits. A number of additional amendments are also proposed that ensure the assigned capacity is properly considered in the Reserve Capacity Mechanism and to correct several clause references and typographical errors in the relevant sections of the Market Rules.

In summary, the IMO proposes to amend the relevant clauses so that:

- a Facility subject to an NCS Contract with Certified Reserve Capacity is automatically assigned Capacity Credits and does not enter the Reserve Capacity Auction;
- a Facility is automatically assigned Capacity Credits for Certified Reserve Capacity that is associated with a pre-existing LT-SPA;
- clause 4.13.9 specifies the date by which Reserve Capacity Security must be provided for a new NCS Facility and the cross references to 4.1.13 in this clause are corrected; and
- clause 4.15.2 considers capacity associated with NCS Facilities and LT-SPAs in the calculation of the Reserve Capacity Auction Requirement so that it aligns with Appendix 3 of the Market Rules.

The IMO also proposes a number of amendments to address incorrect clause references and minor and typographical errors which have been identified in the relevant sections of the Market Rules.

For full details of the Rule Change Proposal please refer to the Market Web Site:

3.2. The IMO's Initial Assessment of the Rule Change Proposal

The IMO decided to proceed with the proposal on the basis that Rule Participants should be given an opportunity to provide submissions as part of the rule change process.

4. Consultation

4.1. The Market Advisory Committee

The Pre Rule Change Proposal was initially presented to the Market Advisory Committee (MAC) on 18 April 2012¹. An overview of the key points raised during the meeting is given below:

- Mr Corey Dykstra queried why the market and not the network users should bear the costs of Capacity Credits to NCS Facilities when an NCS contract is conceptually a replacement for a network solution. Mr Dykstra suggested that either the marginal load that triggers the need for the network upgrade or more generally the users of that network should pay for the transmission network upgrade through network charges. In response, the Chair noted that regardless of whether the IMO allocated Capacity Credits to an NCS Facility, the loads requiring NCS would still need to be provided energy by the market and the IMO would need to procure sufficient capacity to cover that requirement. If Capacity Credits were not allocated to the NCS Facility then the IMO would need to secure additional capacity to meet the relevant loads. This would effectively increase the costs of procuring capacity to the market.
- Mr Geoff Gaston noted that if a Facility in another area was available to meet peak demand, but could not supply the load because of a network constraint, then additional costs would be incurred by the market to procure capacity to meet that load. Alternatively, if Western Power procured an NCS Contract from a Facility which had included into its offer a reduced price in the expectation that it would also receive income from Capacity Credits then the price offer from the NCS Facility would be lower than the actual costs of capacity provision. Western Power's assessment of whether or not to enter into an NCS contract would then be based on an artificially low NCS price; and therefore decision making on whether to build an upgrade to overcome the network constraint would potentially be distorted. He added that the need for an NCS Facility when there was already another Market Generator on the grid potentially able to supply the load was indicative of a delivery issue not a demand issue.
- Mr Dykstra noted that the original market design document had an availability payment and dispatch payment for an NCS contract which he considered makes more sense.

Following the presentation, the IMO clarified the view that it considered that providing NCS Facilities with Capacity Credits is appropriate to ensure their inclusion in the total amount of capacity available to the market. However, the IMO would consider the treatment of NCS Facilities further with key stakeholders (see outcomes in Section 4.2) and present a revised proposal at a future MAC meeting.

¹ MAC Meeting No. 48 Final Minutes (18 April 2012), available at: http://www.imowa.com.au/MAC_48

On 20 March 2013, a revised Rule Change Proposal was presented to the MAC². The revised proposal addressed concerns raised at the 18 April 2012 MAC meeting, in particular the issue of the appropriateness of the market paying Capacity Credits for NCS Facilities.

In addition to this, Mr Noel Ryan presented Western Power's view on the issues discussed at the April 2012 meeting focusing on how Capacity Credits are taken into account in assessing investment options to address network constraints.

Mr Ryan outlined the purpose of the New Facilities Investment Test (NFIT) that Western Power must apply to capital expenditure under section 6.52 of the *Electricity Network Access Code 2005*, noting that it is based on the need to minimise costs. He also noted that the NFIT requires consideration of net benefits from a market perspective; that includes generation, transport, and end consumers, rather than from a Western Power perspective only.

At the close of the conversation, the MAC agreed that the Pre Rule Change Proposal should be submitted into the formal Standard Rule Change Process.

4.2. Workshop with key stakeholders

On 7 February 2013, the IMO, Western Power, the Economic Regulation Authority and the Public Utilities Office met to discuss in more detail the issues raised at the MAC. In addition to discussing several of the issues covered in the April 2012 MAC meeting further, the meeting also covered a number of more practical aspects of the implementation of the proposed rule change including:

- **Ability for Facilities to provide both NCS and Reserve Capacity** – It was agreed that Facilities are able to provide both services and that this ability should be recognised in the Market Rules. The IMO clarified that it considers it would be beneficial to the market to use Facilities in both capacities and that Facilities should be compensated for the services provided.
- **Current requirements for NCS Facilities to apply for CRC** – The IMO clarified that NCS Facilities are currently required to register and apply for CRC. The consensus view was that it was likely that an NCS Facility would apply for CRC, but that the risk of a 'false' shortfall would remain if there was no specific requirement in the Market Rules. It was agreed that the requirement for NCS Facilities to apply for CRC should be retained.
- **Benefit of assigning Capacity Credits to NCS Facilities** – It was agreed that assigning Capacity Credits to these Facilities (provided that they satisfy the requirements for CRC) would benefit the market. It was agreed that an NCS Facility can provide Reserve Capacity in the same way as other Facilities. This would avoid the potential adverse outcome of a 'false' shortfall in Reserve Capacity. In this scenario, additional capacity would need to be procured by the IMO at a potentially higher cost to the market. Further, it is possible for existing Market Participants which have already been assigned Capacity Credits to enter into an NCS Contract. It was agreed that it would not be appropriate for an existing Facility to no longer receive Capacity Credits simply because it has secured an NCS Contract.

² MAC Meeting No. 58 Final Minutes (20 March 2013), available at: http://www.imowa.com.au/MAC_58

- **Appropriate compensation mechanisms** – The consensus view was that the Reserve Capacity available from an NCS Facility would benefit the market in the same manner that Reserve Capacity from a non-NCS Facility provides a benefit. As such, the market should provide compensation for this in the same manner as other Facilities. The scenario where an existing Facility secured an NCS Contract was considered and it was agreed that it would be perverse for the market to stop paying that Facility merely because of the existence of the NCS Contract. Although not directly related, Western Power also advised at the workshop that it is required to consider all costs and benefits to all stakeholders in the market when assessing network solutions. As such, it was agreed that the cost of Capacity Credits would be considered in network constraint assessments regardless of who bore the costs of Capacity Credits.

The outcomes of this workshop were discussed further at the 20 March MAC meeting and subsequently incorporated into the development of the Rule Change Proposal.

4.3. Submissions received during the first submission period

The first submission period for this Rule Change Proposal was held between 28 March and 13 May 2013. Submissions were received from Community Electricity, EnerNOC, ERM Power, Perth Energy, Synergy and Western Power.

All submitting parties other than Synergy supported the Rule Change Proposal.

Community Electricity supported the Rule Change Proposal on the grounds that it harmonised the participation of NCS Facilities in the Reserve Capacity Mechanism. EnerNOC and Western Power also noted that the changes, as proposed, will remove uncertainty around NCS and should make it more likely that an NCS arrangement will occur. Perth Energy and ERM Power welcomed the proposal to rectify some of the inconsistencies relating to the treatment of CRC for these Facilities and noted that this would avoid the understatement of available existing capacity resulting in over-investment.

In its submission, Synergy supported the automatic assignment of capacity credits to LT-SPA Facilities but not NCS Facilities. The issues raised by Synergy with respect to NCS Facilities are discussed further in Section 4.4.

The assessment by submitting parties as to whether the proposal would better achieve the Wholesale Market Objectives is summarised below:

Submitter	Wholesale Market Objective Assessment
Community Electricity	Better achieves Wholesale Market Objectives (a), (b), (c) and (d) and consistent with (e)
EnerNOC	Better achieves all five Wholesale Market Objectives.
ERM Power	None provided.
Perth Energy	Better achieves Wholesale Market Objectives (a), (b), (c) and (d)
Synergy	None provided.

Submitter	Wholesale Market Objective Assessment
Western Power	Better achieve Wholesale Market Objectives (a) and (c).

A copy of all submissions in full received during the first submission period is available on the Market Web Site: http://www.imowa.com.au/RC_2012_03

4.4. The IMO's response to submissions received during the first submission period

The IMO's response to each of the issues identified during the first submission period is presented in the table over the page:

	Submitter	Comment/Change Requested	IMO's Response
1.	Community Electricity	Noted that the proposal facilitates access by the NCS Facility to revenue through the Capacity Mechanism and Network Operation in return for the facility making its fullest contribution to both, without impairment of either. Conditional on efficient contracting by the Network Operator (to include the capacity revenue stream) this would result in maximum utility at minimum cost.	Western Power has confirmed that, in assessing solutions for addressing a network constraint under section 6.52 of the Electricity Network Access Code, it is required to consider the costs and benefits to all network users. As such, the IMO believes that the cost of Capacity Credits will be considered as part of the assessment and will therefore result in an efficient outcome.
2.	EnerNOC	Our view is that all of the following cases should be allowed: 1. If an NCS Facility is able to provide Reserve Capacity, then it should receive Capacity Credits for doing so. 2. An NCS Facility should be able to provide NCS as soon as it is needed, independent of the dates associated with RCM cycles. 3. If an NCS Facility can satisfy Western Power's needs, but for some reason – e.g. fuel requirements, notice periods, or dispatch hours – cannot provide Reserve Capacity, then it should be allowed to provide NCS without any interaction with the RCM. 4. An NCS Facility should be able to provide different amounts of capacity into the NCS and into the RCM. This would typically be the case where an aggregated facility that is already providing Reserve Capacity begins to provide NCS, but only some of its constituent sites are in the correct network area to provide NCS. The current proposal appears to allow for all these cases.	The IMO acknowledges EnerNOC's views and believes that the Amending Rules allow for each of these cases.
3.	EnerNOC	An alternative, and arguably more elegant, approach would be to treat NCS and RCM facilities as completely independent entities, and allow sites to be a member of a maximum of one NCS facility and one RCM facility. However, it seems likely that this would require more extensive rule (and possibly system) changes than the approach proposed here.	A Facility with an NCS contract is essentially providing capacity to the market. The IMO does not distinguish between types of capacity provided to the market, and as such, does not require a mechanism such as that proposed by EnerNOC.

	Submitter	Comment/Change Requested	IMO's Response
4.	Perth Energy	Noted that efficiency would rely on the inclusion of the potential value of capacity payments that NCS providers may receive when assessing offers from NCS providers against alternative solutions. Otherwise, it may be possible for NCS providers to be significantly overcompensated for its services by extracting the value of its capacity both from Western Power for the provision of NCS and from the market for provision of CRC.	See response to issue 1.
5.	Perth Energy	Requested confirmation from the IMO that non delivery of capacity, other than for planned outage reasons would attract capacity refund payments for NCS Facilities as is the case for all other Facilities.	The IMO acknowledges Perth Energy's concerns and can confirm that subrule 4.26.1A requires the IMO to calculate the Reserve Capacity Deficit Refund for each Facility. This covers both generators providing NCS and Demand Side Management providers.
6.	Synergy	Stated that its interpretation differs from the IMO's suggestion in that Synergy believes capacity credits can be assigned to CRC associated with pre-existing LT SPA facilities where a bilateral trade declaration has been made (as a sub-set of capacity so nominated under 4.14.1(c)). Supports actions to clarify the application of the Rule in regard to assigning Capacity Credits to CRC associated with an LT-SPA or subject to an NCS contract.	The IMO agrees with Synergy's interpretation, which reflects one potential scenario. The IMO acknowledges Synergy's view that the proposed amendments will provide necessary clarification in the Rules.

	Submitter	Comment/Change Requested	IMO's Response
7.	Synergy	Suggested that there is a case for debate over the removal of subrules 5.2A.1 and 5.2A.2 to remove the requirement for NCS Facilities to register and apply for CRC (respectively). The intent of removing these clauses is to remove regulatory interference in the market and allow an entity to participate according to its commercial objectives and in doing so, result in a more efficient allocation of resources.	<p>The IMO notes that, even with the removal of 5.2A.1, a Facility would still need to be a Registered Facility in order to be dispatched by System Management under clause 7.7.</p> <p>The IMO does not agree with Synergy's proposal to remove the requirement to apply for CRC. Clause 5.2A.2 ensures that all appropriate capacity in the SWIS is considered for the calculation of RCR and that all capacity able to be provided is bid into the balancing market, thereby ensuring there is not a 'false' shortfall in capacity.</p> <p>Maintaining this approach will continue to ensure efficient market outcomes in line with Wholesale Market Objective a) and avoiding additional costs of network augmentation and procuring supplementary Reserve Capacity in line with Wholesale Market Objective d).</p>

4.5. Public Forums and Workshops

The IMO coordinated a workshop to discuss in more detail the issues raised at the April 2012 MAC meeting. Details of the outcomes of the meeting are provided in context in section 4.2.

5. The IMO's Draft Assessment

In preparing its 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.

Clause 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 or any technical studies commissioned with respect to this Rule Change Proposal. A summary of the views expressed in submissions and by the MAC is available in section 4 of this report.

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

5.1. Additional Amendments to the proposed Amending Rules

No additional amendments were made to the proposed Amending Rules.

5.2. Wholesale Market Objectives

The IMO considers the proposed amendments will improve the integrity of the Market Rules and better achieve Wholesale Market Objectives (a), (b) and (d) by providing certainty to Market Participants that they will receive Capacity Credits for Certified Reserve Capacity that is subject to an NCS Contract or an LT-SPA.

The IMO's assessment is presented below:

(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 proposed amendments are expected to encourage Market Participants to enter into NCS Contracts and locate in areas that assist the operation of the network, better

promoting the economically efficient and reliable production and supply of electricity and electricity related services in the SWIS.

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

The automatic allocation of Capacity Credits to NCS and LT-SPA Facilities will encourage and facilitate the entry of new capacity of this type to the market, thereby increasing competition.

(d) to minimise the long-term cost of electricity supplied to customers from the South West interconnected system

The proposed amendments will ensure that the long-term cost of electricity supplied is minimised by avoiding higher costs associated with procuring capacity in the event of a 'false' shortfall in capacity; and by reducing the overall cost of the combined network and energy costs by providing appropriate compensation and incentives for new Facilities that, by locating in a particular region, may avoid higher alternative network augmentation costs.

The IMO considers that the proposed changes are consistent with the remaining Wholesale Market Objectives.

5.3. Practicality and cost of implementation

5.3.1. Cost

The IMO has estimated that the required WEM System development, testing and verification will cost approximately \$15,000. This will provide for the:

- determination of the eligible Facilities that are to be used in the assignment of Capacity Credit Process;
- verification that the Facilities with existing (and effective) NCS Contracts and LT SPAs are recorded correctly in the system;
- assignment of those Facilities' Capacity Credits as a first order priority when undertaking the assignment process for Facilities in Availability Class 1 within the calculation; and
- resulting amendments to the Capacity Credit Allocation calculation in WEMS and testing.

No other significant costs were identified by stakeholders.

5.3.2. Practicality

The proposed Amending Rules are intended to commence on 12 August 2013 to be in place for the 2013 Capacity Cycle. Following further analysis, the IMO has indicated that it is unlikely that the required system changes will be able to be implemented by this date. However, the IMO has developed an interim manual solution to allow the Proposed Rule Change to commence by this date.

No other issues relating to the practicality of implementation were identified.

6. The IMO's Proposed Decision

The IMO's proposed decision is to accept the Rule Change Proposal as specified in the Rule Change Notice and Proposal.

6.1. Reasons for the decision

The IMO made its proposed decision on the basis that the Amending Rules:

- will improve the integrity of the Market Rules and better achieve Wholesale Market Objectives (a), (b) and (d);
- are consistent with the remaining Wholesale Market Objectives
- have the general support of MAC members; and
- have received in-principle support of most submissions received during the first submission period.

6.2. Proposed Commencement details

The Amending Rules are proposed to commence at **8:00 AM** on **12 August 2013**.

7. Proposed Amending Rules

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

- 4.1.13. Each Market Participant must provide to the IMO any Reserve Capacity Security required in accordance with clause 4.13.1 not later than 5:00 PM of the last Business Day falling on or before:
- (a) for Reserve Capacity Cycles up to and including 2010:
 - i. 10 August of Year 1 of the relevant Reserve Capacity Cycle if any of the Facility's Certified Reserve Capacity is specified to be traded bilaterally in accordance with clause 4.14.1(c); or
 - ii. 29 August of Year 1 of the relevant Reserve Capacity Cycle if any of the Facility's Certified Reserve Capacity is specified to be offered into the Reserve Capacity Auction in accordance with clause 4.14.1(a) and where none of the Facility's Certified Reserve Capacity is specified to be traded bilaterally in accordance with clause 4.14.1(c);
 - (b) for Reserve Capacity Cycles from 2011 onwards:
 - (i) 2 September of Year 1 of the relevant Reserve Capacity Cycle if any of the Facility's Certified Reserve Capacity is specified to be traded bilaterally in accordance with clause 4.14.1(c) or the Facility is subject to a Network Control Service Contract; or

- (ii) 14 September of Year 1 of the relevant Reserve Capacity Cycle if any of the Facility's Certified Reserve Capacity is specified to be offered into the Reserve Capacity Auction in accordance with clause 4.14.1(a) and where none of the Facility's Certified Reserve Capacity is specified to be traded bilaterally in accordance with clause 4.14.1(c).

4.13.9. If a Market Participant does not comply with clause 4.13.1 in full by the date and time specified in:

- (a) clause 4.1.13(a)(i) or clause 4.1.13(b)(i), as applicable, in the case of a Facility with Certified Reserve Capacity specified to be traded bilaterally in accordance with clause 4.14.1(c) or a Facility subject to a Network Control Service Contract; or
- (b) ~~clause 4.1.13(b)~~ 4.1.13(a)(ii) or clause 4.1.13(b)(ii), as applicable, in the case of a Facility with Certified Reserve Capacity specified to be offered into the Reserve Capacity Auction in accordance with clause 4.14.1(a) and where none of the Facility's Certified Reserve Capacity is specified to be traded bilaterally in accordance with clause 4.14.1(c),

for the Reserve Capacity Cycle to which the certification relates, the Certified Reserve Capacity of that Facility will lapse.

4.14.3. A Market Participant ~~may~~ must not make a submission under clause 4.14.1 with respect to a Facility subject to a Network Control Service Contract.

4.14.10. A Market Participant must make available in any Reserve Capacity Auction held in accordance with clause 4.15 any Certified Reserve Capacity it holds for a Facility, except to the extent that:

- (a) clause 4.14.8 applies;
- (b) the Certified Reserve Capacity is covered by a pre-existing Long Term Special Price Arrangement; ~~or~~
- (c) the IMO has notified the Market Participant in accordance with clause 4.14.9 that the Certified Reserve Capacity can be traded bilaterally; or
- (d) the Certified Reserve Capacity is issued to a Facility that is subject to a Network Control Service Contract.

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

- (a) that the Reserve Capacity Auction will be held;
- (b) the Reserve Capacity Auction Requirement, where this equals the
 - i. Reserve Capacity Requirement; less

- ii. the total amount of Certified Reserve Capacity which the IMO has notified Market Participants can be traded bilaterally under clause 4.14.9 or is covered by a pre-existing Long Term Special Price Arrangement; less
 - iii. the amount of Capacity Credits assigned under clause 4.28C for the relevant Reserve Capacity Cycle; ~~and less~~
 - iv. the total amount of Certified Reserve Capacity assigned to Facilities that are subject to a Network Control Service Contract; and
- (c) the amount of Reserve Capacity required to be procured via the auction from each Availability Class.

4.20.5A. Where a Reserve Capacity Auction is:

- (a) cancelled under clause 4.15.1 the IMO must assign Capacity Credits:
 - i. ~~_____ to each Facility included in a notification under clause 4.14.9. The, where the quantity of Capacity Credits assigned will equal the quantity in the notification;~~
 - ii. to each Facility assigned Certified Reserve Capacity that is subject to a Network Control Service Contract, where the quantity of Capacity Credits assigned will equal the quantity specified under clause 4.9.9(a); and
 - iii. to each Facility assigned Certified Reserve Capacity with a pre-existing Long Term Special Price Arrangement, where the quantity of Capacity Credits assigned will equal the quantity specified under clause 4.14.1(b),
~~and~~ The IMO must publish the Capacity Credits assigned, by Facility, by the date and time specified in clause 4.1.16;
- (b) not cancelled under clause 4.15.1 the IMO must assign Capacity Credits:
 - i. to each Facility for which a Market Participant lodged a notification under clause 4.20.1(a). ~~The, where the~~ quantity of Capacity Credits assigned will equal the quantity notified under that clause and confirmed by the IMO under clause 4.20.2; ~~and~~
 - ii. to each Facility included in a notification under clause 4.14.9. ~~The, where the~~ quantity of Capacity Credits assigned will equal the quantity notified under that clause, as may be amended by a notification given under clause 4.20.1 and confirmed by the IMO under clause 4.20.2;
 - iii. to each Facility assigned Certified Reserve Capacity that is subject to a Network Control Service Contract, where the quantity of Capacity Credits assigned will equal the quantity specified under clause 4.9.9(a); and
 - iv. to each Facility assigned Certified Reserve Capacity with a pre-existing Long Term Special Price Arrangement, where the quantity of Capacity Credits assigned will equal the quantity specified under clause 4.14.1(b),

and ~~†~~The IMO must publish the Capacity Credits assigned, by Facility, by the date and time specified in clause 4.1.21A; and

- (c) not cancelled under clause 4.15.1 and the IMO receives no notification under clause 4.20.1 from a Market Participant, the IMO must not assign Capacity Credits to that Market Participant.