



INDEPENDENT
MARKET
OPERATOR

Draft Rule Change Report

Early Entry Capacity Payments

RC_2013_21
Standard Rule Change Process

Date: 25 March 2014

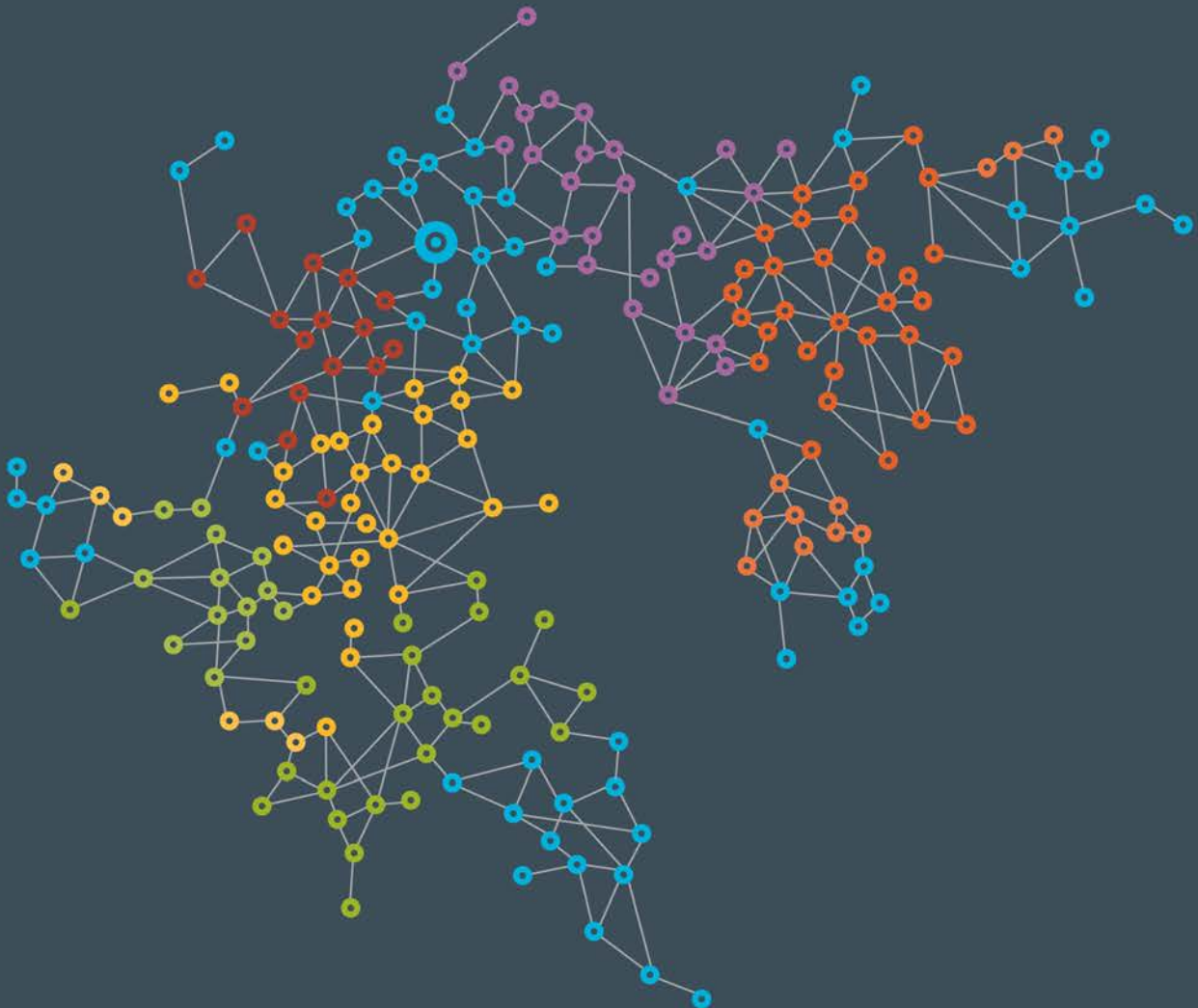


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Executive Summary

The Reserve Capacity Mechanism requires Certified Reserve Capacity to be available from the beginning of the Capacity Year on 1 October. Under clause 4.1.26(c) of the Wholesale Electricity Market Rules (Market Rules), to incentivise the prompt arrival of new capacity, Facilities may enter the market and begin receiving early entry capacity payments at any time throughout the four months leading up to start of the Capacity Year (specifically 1 June to 30 September). The early payment was preferred against the possibility of the risk of a new generator arriving late, and missing part or all of the generator's first summer, meaning it could be at risk of missing the critical summer peak, where system reliability is essential to minimise the risk of blackouts when the load is at its peak.

The IMO considers that, in years of excess capacity, the market receives little benefit from the incentive for early entry that is currently available. In these circumstances, the early entry capacity payments represent an unnecessary cost to Market Customers. As such, the IMO has developed this Rule Change Proposal to remove early entry capacity payments for new capacity in times of excess capacity.

Proposed Amendments

The IMO proposes to introduce a new clause 4.1.16A and amend clauses 4.1.16, 4.1.21A, 4.1.26, 4.20.5A and 4.28C.13 of the Market Rules to remove early entry capacity payments for new capacity where the Reserve Capacity Requirement has already been met for a Capacity Year.

The proposed amendments require the IMO to determine whether the Reserve Capacity Requirement has already been met for a Capacity Year and notify Market Participants whether early entry capacity payments will be available for the relevant Capacity Year, following the assignment of Capacity Credits in Year 1 of the Reserve Capacity Cycle.

Consultation

A pre Rule Change Proposal was presented to the Market Advisory Committee (MAC) at its 11 December 2013 meeting. At the meeting, the MAC members agreed that, subject to a change in the timing of the notification of the availability of payments, the proposal should be submitted into the formal rule change process. The IMO formally submitted the proposal into the Standard Rule Change Process and published the Rule Change Notice on 10 January 2014.

The first submission period was held between 13 January 2014 and 24 February 2014. Submissions were received from Alinta Energy, Community Electricity, Perth Energy and Synergy. All submissions supported the proposed amendments on the grounds that it removed unnecessary costs in the market.

Assessment Against Wholesale Market Objectives

The IMO considers that the Rule Change Proposal better achieves Wholesale Market Objectives (a) and (d) by removing inefficient incentives for and unnecessary costs of the early entry of capacity when it is not required, thereby reducing the cost to the market where such payment does not provide commensurate market benefits.

Practicality and Cost of Implementation

The IMO is expected to incur minor costs to amend certification processes and systems. However, these costs are not expected to be significant and can be accommodated within the IMO's existing operational budget.

No issues relating to the practicality or cost of implementation have been raised in consultation on the Rule Change Proposal to date.

The IMO's Proposed Decision

The IMO's proposed decision is to accept the Rule Change Proposal as modified following the first submission period.

Next Steps

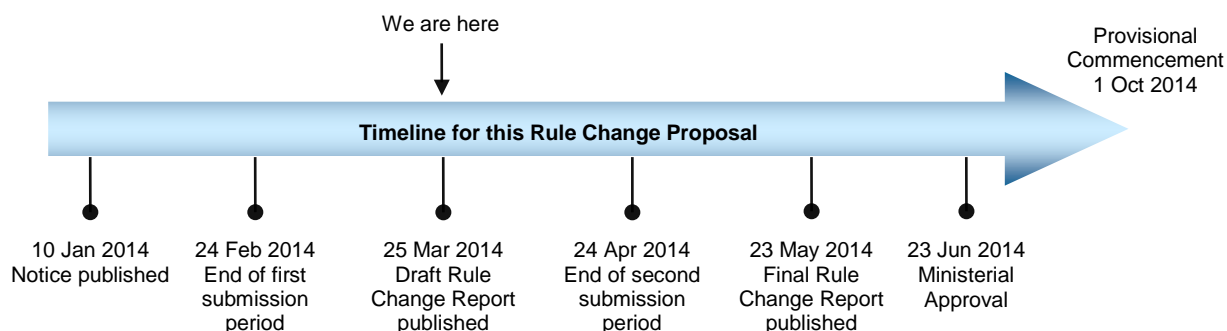
The IMO invites interested stakeholders to make submissions on this Draft Rule Change Report by **5:00 PM, Thursday 24 April 2014**.

1. Rule Change Process and Timetable

On 10 January 2014, the IMO submitted a Rule Change Proposal proposing to introduce a new clause 4.1.16A and amend clauses 4.1.16, 4.1.21A, 4.1.26, 4.20.5A and 4.28C.13 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:



2. Call for Second Round Submissions

The IMO invites interested stakeholders to make submissions on this Draft Rule Change Report. The second submission period is 20 Business Days from the publication date of this report. Submissions must be delivered to the IMO by **5.00 PM, Thursday 24 April 2014**.

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

The IMO developed this Rule Change Proposal to remove early entry capacity payments for new capacity where the Reserve Capacity Requirement has been met. The IMO proposes that, where the Reserve Capacity Requirement has already been met for a Capacity Year as determined by the IMO, the IMO must decide that early entry capacity payments will not be available for the relevant Capacity Year, following the assignment of Capacity Credits in Year 1 of the Reserve Capacity Cycle.

The IMO considers that, in years of excess capacity the market receives little benefit from the incentive for early entry. In such circumstances, early entry capacity payments represent an unnecessary cost to Market Customers. Limiting access to early entry capacity payments will likely save Market Customers \$1.55 million on average per annum.

In addition, the IMO took the opportunity to correct an oversight from the Rule Change Proposal: Early Certified Reserve Capacity (RC_2009_10) to include the ability to provide early entry capacity payments (consistent with the changes proposed for capacity certified under the standard process) to Market Participants where Facilities are provided Early Certified Reserve Capacity under clause 4.28C of the Market Rules.

For full details of the Rule Change Proposal please refer to the Market Web Site: http://www.imowa.com.au/RC_2013_21.

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 Standard Rule Change Process.

3.3. Protected Provisions, Reviewable Decisions and Civil Penalties

The IMO notes that clause 4.1.16 of the Market Rules is a Protected Provision. Under clause 2.8.3 of the Market Rules, amendments to a Protected Provision require the Amending Rules in this Rule Change Proposal to be approved by the Minister.

In addition, the IMO proposes to add the new clause 4.1.16A of the Market Rules which contains an obligation that has been moved from clause 4.1.16 which itself is a Protected Provision. The IMO has engaged with the Public Utilities Office to determine whether clause 4.1.16A of the Market Rules should be made a Protected Provision.

The Public Utilities Office agreed with the IMO's proposal that clause 4.1.16A of the Market Rules should be made a Protected Provision. As clause 4.1.16A of the Market Rules is included in the range of Protected Provisions in clause 4.8.13(d), no specific amendments are required to give effect to this.

4. Consultation

4.1. The Market Advisory Committee

The Market Advisory Committee (MAC) has expressed support for reforming the concept of early entry capacity payments, particularly in times of excess capacity. The following opinions have been expressed by MAC members in the past:

- In October 2010¹, System Management queried the validity of having early entry capacity payments available when the usability of the new capacity at that time of year is questionable;

¹ Available in minutes for agenda item 5h, [http://www.imowa.com.au/governance/market-advisory-committee-\(mac\)/2010/mac-32](http://www.imowa.com.au/governance/market-advisory-committee-(mac)/2010/mac-32).

- In June 2012², Griffin Power expressed the view that there is sufficient incentive to ensure capacity is available by 1 October in order to avoid Capacity Cost Refunds; and
- In October 2013³, the MAC discussed the continuing priorities of the Market Rules Evolution Plan, where the reform of early entry capacity payments was agreed as a priority for the IMO to remove the unnecessary, inefficient cost to the market.

A pre Rule Change Proposal was presented to the MAC at its 11 December 2013 meeting. At the meeting, the MAC members agreed that, subject to a change in the timing of the notification of the availability of payments, the proposal should be submitted into the formal rule change process. The IMO formally submitted the proposal into the Standard Rule Change Process and published the Rule Change Notice on 10 January 2014.

Further details are available in the MAC meeting minutes available on the Market Web Site: <http://www.imowa.com.au/MAC>

4.2. Submissions Received During the First Submission Period

The first submission period for this Rule Change Proposal was held between 13 January 2014 and 24 February 2014. Submissions were received from Alinta Energy, Community Electricity, Perth Energy and Synergy.

All submitters supported the Rule Change Proposal noting that it would promote economic efficiency and reduce unnecessary costs in the market. Perth Energy also made a suggestion to correct an incorrect reference in the drafting of clause 4.1.16 of the Market Rules which the IMO has adopted.

Perth Energy and Synergy also raised some general issues which the IMO has addressed in section 4.3 of this Draft Rule Change Report.

The submitters' assessment against Wholesale Market Objectives is provided in the table below:

Submitter	Wholesale Market Objective assessment
Alinta Energy	Not specifically provided, but considers the proposal will remove unnecessary costs (Wholesale Market Objective (d)).
Community Electricity	Better achieves Wholesale Market Objectives (a) and (d) and consistent with the remaining.
Perth Energy	Better achieves Wholesale Market Objectives (a) and (d)
Synergy	Not specifically provided, but considers the proposed changes appropriately reduces market payments where no benefits accrue (Wholesale Market Objective (d)).

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_2013_21.

² Available in minutes for agenda item 5a, [http://www.imowa.com.au/governance/market-advisory-committee-\(mac\)/2012/mac-50](http://www.imowa.com.au/governance/market-advisory-committee-(mac)/2012/mac-50).

³ Available in minutes for agenda item 6, [http://imowa.com.au/governance/market-advisory-committee-\(mac\)/2013/mac-65](http://imowa.com.au/governance/market-advisory-committee-(mac)/2013/mac-65).

4.3. 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.	Synergy	Synergy notes that clause 4.1.26 of the Market Rules has been amended a number of times since market start and currently includes different rules for a number of Reserve Capacity Cycles. Synergy is concerned that regular amendments to this clause may undermine the stability and integrity of the Reserve Capacity Mechanism. Synergy is supportive of the rule change being as future-proofed as possible i.e. to enable the incentive mechanism when supply is tight, but not cost the market when the early entry is not required.	The IMO agrees with Synergy that stability in the Market Rules is important. However, the IMO considers it appropriate to progress the proposed amendments to remove unnecessary costs to the market. The IMO notes that approach to drafting amendments to clause 4.1.26 has captured the rules that apply to each Reserve Capacity Cycle.
2.	Perth Energy	We remain of the view that demand side providers are not capable of delivering the same CRC product that conventional generators deliver. Evidence is that demand side products are not dispatched into the energy balancing market as generators are. They also do not have the same significant financial incentives to stay around and ensure that they are able to deliver capacity to the system as conventional generators do. This is because their investment in their Facility has an alternative value (the primary purpose of the Facility) and their investment would not be stranded if capacity payments from the WEM were no longer available. Conventional generators do not have any alternatives to sourcing revenue from the provision of energy and capacity and hence have a much stronger incentive to perform well in the WEM. We do not believe that demand side should be provided with CRC.	The IMO observes that the Reserve Capacity Mechanism Working Group agreed at its outset to uphold the principle that all capacity should be treated the same irrespective of its source. Additionally, as noted in the Final Rule Change Report for Rule Change Proposal: Limits to Early Entry Capacity Payments (RC_2012_10), the IMO notes that discrimination between different technologies is contrary to the Wholesale Market Objective (c).
	Alinta Energy	Alinta notes that its views around the necessity of early entry payments for DSM have not changed from those presented in its second round submission for RC_2012_10.	

	Submitter	Comment/ Change Requested	IMO's Response
3.	Perth Energy	Perth Energy suggests to make the following minor change to the wording of new clause 4.1.16A: "If the Reserve Capacity Auction is cancelled, then, on the day that the IMO publishes the notice under this clause 4.1.16, the IMO must:...". The notice that is referred to is published under clause 4.1.16 and not "this" clause 4.1.16A.	The IMO agrees with this suggestion and has proposed further amendments to this clause in Appendix 1 of this report.
4.	Synergy	While the IMO has not proposed to reopen the arguments about the conceptual merit of early entry nor the arguments around the merit of both generation and demand side capacity having access to such a regime, Synergy considers that these remain important issues that should be addressed as part of the State Government's holistic review of the WEM.	Noted.

4.4. Public Forums and Workshops

No public forums or workshops were held with regard to this Rule Change Proposal.

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 in respect of 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

Following the first submission period, the IMO has made additional changes to clause 4.1.16 of the Market Rules to correct the incorrect reference noted by Perth Energy.

The IMO has also amended references in the proposed Amending Rules to refer to the 2015 Reserve Capacity Cycle on the basis that the rule change process will not be completed in time for implementation for the 2014 Reserve Capacity Cycle.

The changes the IMO has made to the Amending Rules as presented in the Rule Change Proposal are outlined in Appendix 1 of this Draft Rule Change Report.

5.2. Wholesale Market Objectives

The IMO considers that the Market Rules as a whole, if amended as presented in section 7, will not only be consistent with the Wholesale Market Objectives but also allow the Market Rules to better achieve Wholesale Market Objectives (a) and (d).

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 also remove the unnecessary cost of early entry capacity payments where the market has adequate existing capacity, while retaining the payment to minimise the risk of costly capacity shortfalls at times when capacity is inadequate.

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

The IMO considers that the proposed amendments improve economic efficiency by removing inefficient incentives for the early entry of capacity when it is not required, thereby reducing the cost to the market where such payment does not provide commensurate market benefits.

5.3. Practicality and Cost of Implementation

5.3.1. Cost:

The IMO is expected to incur minor costs to amend certification processes and systems. However, these costs are not expected to be significant and can be accommodated within the IMO's existing operational budget.

5.3.2. Practicality:

The IMO does not consider that there are any issues with the practicality of implementing the proposed changes. No issues relating to the practicality of implementation of the proposed amendments have been raised during consultation on the Rule Change Proposal.

The IMO notes that clause 4.1.16 and proposed new clause 4.1.16A of the Market Rules are Protected Provisions. Under clause 2.8.3 of the Market Rules, amendments to a Protected Provision require the Amending Rules in this Rule Change Proposal to be approved by the Minister.

5.3.3. Amendments to Associated Market Procedures:

The IMO considers that there are no Market Procedures that require updating as a result of this Rule Change Proposal.

6. The IMO's Proposed Decision

The IMO's proposed decision is to accept the Rule Change Proposal as modified by the amendments outlined in section 5.1.

6.1. Reasons for the Decision

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

- better achieve Wholesale Market Objectives (a) and (d);

- are consistent with the remaining Wholesale Market Objectives; and
- have the general support of the MAC and the submissions received during the first submission period.

6.2. Proposed Commencement

The Amending Rules are proposed to commence at **8:00 AM** on 1 October 2014 to apply to from the 2015 Reserve Capacity Cycle.

7. Proposed Amending Rules

The proposed Amending Rules as presented in the Rule Change Proposal and amended following the first submission period are as follows (~~deleted text~~, added text):

4.1.16. The IMO must publish the information required by clauses 4.15.1 and 4.15.2 pertaining to whether or not a Reserve Capacity Auction is required by 5:00 PM on the last Business Day falling on or before:

- 16 September 2005, in the case of the first Reserve Capacity Cycle;
- 18 August of Year 1, in the case of subsequent Reserve Capacity Cycles up to and including 2010; and
- the first Business Day following the confirmation deadline specified in clause 4.1.15, in the case of Reserve Capacity Cycles from 2011 onwards.

~~If the Reserve Capacity Auction is cancelled, the IMO will assign Capacity Credits on the same day in accordance with clause 4.20.5A(a).~~

4.1.16A. If the Reserve Capacity Auction is cancelled, then, on the day that the IMO publishes the notice under clause 4.1.16, the IMO must:

- assign Capacity Credits in accordance with clause 4.20.5A(a); and
- determine the availability of early entry capacity payments in accordance with clause 4.20.5A(aA).

...

4.1.21A. Not later than 5:00 PM on the last Business Day falling on or before 24 September of Year 1 of a Reserve Capacity Cycle, the IMO must, in the event that a Reserve Capacity Auction was required;

- assign Capacity Credits in accordance with clause 4.20.5A(a); and
- determine the availability of early entry capacity payments in accordance with clause 4.20.5A(aA).

...

4.1.26. Reserve Capacity Obligations apply:

- (a)...
- 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)...
- 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~~ sup to and including 2014:
- ...
- 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; and
- (d) for subsequent Reserve Capacity Cycles from 2015 onwards:
- i. where the IMO has determined in accordance with clause 4.20.5A(aA) that the Reserve Capacity Requirement has been met or exceeded with the Capacity Credits assigned for Year 3 for which no Reserve Capacity Security was required to be provided under clause 4.13, from the Trading Day commencing on 1 October of Year 3;
- ii. where the IMO has determined in accordance with clause 4.20.5A(aA) that the Reserve Capacity Requirement has not been met with the Capacity Credits assigned for Year 3 for which no Reserve Capacity Security was required to be provided under clause 4.13:
1. 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;
2. 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 4.27.11B, for Facilities commissioned between 1 June of Year 3 and 1 October of Year 3; or

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

...

4.20.5A. The IMO must:

- (a) assign a quantity of Capacity Credits to each Facility, where the quantity is determined in accordance with clause 4.20.5B, clause 4.20.5C or clause 4.20.5D, as applicable to the relevant Facility; ~~and~~
- (aA) determine whether the Reserve Capacity Requirement has been met or exceeded with the Capacity Credits assigned for Year 3 for which no Reserve Capacity Security was required to be provided under clause 4.13; and
- (b) publish the quantity of Capacity Credits assigned to each Facility under clause 4.20.5A(a) and the IMO's determination under clause 4.20.5A(aA):
 - (i) if a Reserve Capacity Auction is cancelled under clause 4.15.1 – by the date and time specified in clause 4.1.16; and
 - (ii) if a Reserve Capacity Auction is not cancelled under clause 4.15.1 – by the date and time specified in clause 4.1.21A.

...

4.28C.13. If the IMO approves the granting of Capacity Credits to the Facility under this clause 4.28C, then the Capacity Credits and the Reserve Capacity Obligations associated with that Facility will apply from the commencement of the Trading Day commencing on the start date until the end of the Trading Day ending on the end date, where:

- ~~(a) the start date is 1 October of year 3 of the capacity cycle the application relates to under clause 4.28C.2; and~~
- (a) the start date is:
 - i. where the IMO has determined, under clause 4.20.5A(aA), that the Reserve Capacity Requirement has been met or exceeded with the Capacity Credits assigned for Year 3 for which no Reserve Capacity Security was required to be provided under clause 4.13 – 1 October of Year 3 of the Reserve Capacity Cycle to which the application relates, as determined under clause 4.28C.2; and
 - ii. where the IMO has determined, under clause 4.20.5A(aA), that the Reserve Capacity Requirement has not been met with the Capacity Credits assigned for Year 3 for which no Reserve Capacity Security was required to be provided under clause 4.13;

1. for Facilities commissioned between 1 June of Year 3 and 1 October of Year 3 – the date on which the Facility completes all Commissioning Tests and is capable of meeting Reserve Capacity Obligations in full, as specified in accordance with clause 4.10.1(c)(iii)(7), or as revised in accordance with clause 4.27.11A or clause 4.27.11B; or
2. for new generating systems undertaking Commissioning Tests after 1 October of Year 3 – 1 October of Year 3; and

...

Appendix 1. Further Amendments to the Proposed Amending Rules

The IMO has made some amendments to the Amending Rules following the first submission period. These changes are as follows (~~deleted text~~, added text):

4.1.16A₂ If the Reserve Capacity Auction is cancelled, then, on the day that the IMO publishes the notice under ~~this~~-clause 4.1.16, the IMO must:

...

4.1.26₂ Reserve Capacity Obligations apply:

...

(c) for subsequent Reserve Capacity Cycles to and including 2013~~4~~4:

...

(d) for subsequent Reserve Capacity Cycles from 2014~~5~~5 onwards:

...