

## Rule Change Notice

### Limit to Early Entry Capacity Payments (RC\_2013\_21)

This notice is given under clause 2.5.7 of the Market Rules.

**Submitter:** Allan Dawson, IMO

**Date Submitted:** 10 January 2014

#### The Proposal

Based on the outcomes of the December 2013 meeting of the Market Advisory Committee, the IMO has developed a Rule Change Proposal to progress proposed amendments to limit early entry capacity payments in periods of excess capacity.

Early entry capacity payments were introduced by RC\_2009\_11: *Changing the Window of Entry into the Reserve Capacity Market* recognising that generators may be prone to being unreliable for several months after commissioning as issues not discoverable throughout the lead up to and during commissioning become evident and are rectified. The change of timing and earlier access to Capacity Credit payments was based on a market consideration that it incentivises generators to arrive early. 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 notes that RC\_2009\_11 was implemented when reserve deficits were of a concern in the market, at a time when the benefit of encouraging the timely delivery of capacity was considered likely to exceed any potential costs to the market. Since the commencement of RC\_2009\_11, excess capacity has developed in the WEM and now is around 11% (~564 MW) of the Reserve Capacity Requirement for the 2015/16 Capacity Year.

The IMO considers that after several years of providing access to early entry capacity payments for new Facilities, it is now appropriate to reconsider the value that the market derives from this incentive under all market conditions, including times of excess capacity.

The IMO has developed this Rule Change Proposal to remove early entry capacity payments for new capacity in times of excess capacity. 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 provide notice 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. This will allow investment decisions to factor in this revenue stream as applicable.

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. Limiting access to early entry capacity payments will likely save Market Customers \$1.55 million on average per annum.

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

Appendix 1 contains the Rule Change Proposal and gives complete information about:

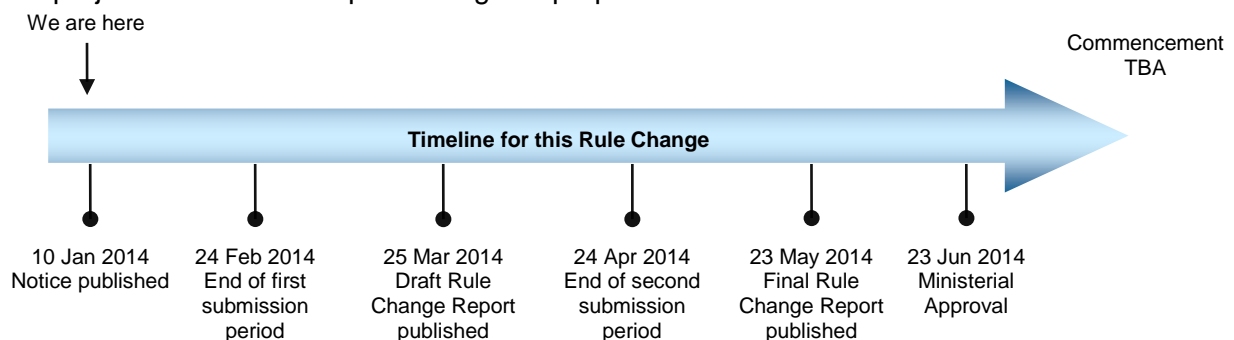
- the proposed amendments to the Market Rules;
- relevant references to clauses of the Market Rules and any proposed specific amendments to those clauses; and
- the submitter's description of how the proposed amendments would allow the Market Rules to better address the Wholesale Market Objectives.

## Decision to Progress the Rule Change

The IMO has decided to progress the Rule Change Proposal on the basis that Rule Participants should be given an opportunity to provide submissions as part of the rule change process.

## Timeline

The projected timelines for processing this proposal are:



## Call for Submissions

The IMO invites interested stakeholders to make submissions on this Rule Change Proposal. The submission period is 30 Business Days from the Rule Change Notice publication date. Submissions must be delivered to the IMO by **5.00pm on Thursday, 24 February 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](mailto: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



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## Wholesale Electricity Market Rule Change Proposal

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**Rule Change Proposal ID:** RC\_2013\_21  
**Date received:** 10 January 2014

**Change requested by:**

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<b>Organisation:</b>	IMO
<b>Address:</b>	Level 17, 197 St Georges Terrace, Perth WA 6000
<b>Date submitted:</b>	10 January 2014
<b>Urgency:</b>	Medium
<b>Change Proposal title:</b>	Limit to Early Entry Capacity Payments
<b>Market Rules affected:</b>	Clauses 4.1.16, 4.1.16A (new) 4.1.21A, 4.1.26, 4.20.5A and 4.28C.13

### Introduction

Market Rule 2.5.1 of the Wholesale Electricity Market Rules provides that any person (including the IMO) may make a Rule Change Proposal by completing a Rule Change Proposal Form that must be submitted to the Independent Market Operator.

This Change Proposal can be posted, faxed or emailed to:

**Independent Market Operator**

Attn: Group Manager, Development and Capacity  
PO Box 7096  
Cloisters Square, Perth, WA 6850  
Fax: (08) 9254 4339  
Email: [market.development@imowa.com.au](mailto:market.development@imowa.com.au)

The Independent Market Operator will assess the proposal and, within 5 Business Days of receiving this Rule Change Proposal form, will notify you whether the Rule Change Proposal will be further progressed.





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In order for the proposal to be progressed, all fields below must be completed and the change proposal must explain how it will enable the Market Rules to better contribute to the achievement of the Wholesale Market Objectives.

The objectives of the market 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.

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## Details of the Proposed Rule Change

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### **1. Describe the concern with the existing Market Rules that is to be addressed by the proposed Market Rule change:**

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 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).

Early entry capacity payments were introduced by *RC\_2009\_11: Changing the Window of Entry into the Reserve Capacity Market* recognising that generators may be prone to being unreliable for several months after commissioning as issues not discoverable throughout the lead up to and during commissioning become evident and are rectified. The change of timing and earlier access to Capacity Credit payments was based on a market consideration that it incentivises generators to arrive early. 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.



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The IMO notes that RC\_2009\_11 was implemented when reserve deficits were of a concern in the market, at a time when the benefit of encouraging the timely delivery of capacity was considered likely to exceed any potential costs to the market. Since the commencement of RC\_2009\_11, excess capacity has developed in the WEM and now is around 11% (~564 MW) of the Reserve Capacity Requirement for the 2015/16 Capacity Year.

The IMO considers that after several years of providing access to early entry capacity payments for new Facilities, it is now appropriate to reconsider the value that the market derives from this incentive under all market conditions, including times of excess capacity.

In October 2012, Synergy proposed *RC\_2012\_10: Limits to Early Entry Capacity Payments* to minimise the early entry capacity payments to Demand Side Programmes (DSP) on the basis that due to the short lead time to develop demand-side capacity, the incentive was unnecessary and therefore inefficient. However, the IMO rejected the Rule Change Proposal on the basis that it was discriminatory against Market Customers providing DSP, and therefore inconsistent with Wholesale Market Objective (c).

Even though RC\_2012\_10 was rejected by the IMO, 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 October 2010<sup>1</sup>, 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;
- in June 2012<sup>2</sup>, 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 2013<sup>3</sup>, 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.

Since the introduction of early entry capacity payments, the yearly level of payments has been between \$144,000 in 2008/09 and \$6.9 million in 2012/13, at a total cost of \$12.4 million.

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.

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<sup>1</sup> 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).

<sup>2</sup> 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).

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



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Based on the above, the IMO has developed this Rule Change Proposal to remove early entry capacity payments for new capacity in times of excess capacity. 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 provide notice 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. This will allow investment decisions to factor in this revenue stream as applicable.

In addition, the IMO has taken the opportunity to include the ability to provide early entry capacity payments for Market Participants where Facilities are provided Early Certified Reserve Capacity (ECRC) under clause 4.28C of the Market Rules.

When commencing *RC\_2009\_10: Early Certified Reserve Capacity* in February 2010, there was an oversight in that the Amending Rules introduced inconsistent treatment between standard Certified Reserve Capacity and ECRC, where a Facility assigned Capacity Credits via the ECRC process is not entitled to the early entry capacity payments that are available to Facilities that are certified in the typical two-year-ahead process. The IMO therefore proposes to amend clause 4.28C.13 of the Market Rules to provide consistency between Facilities that enter the Reserve Capacity Mechanism via the ECRC and standard certification processes, whereby early entry capacity payments are available except for in periods of excess Certified Reserve Capacity.

### **Protected Provisions**

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 a new clause, clause 4.1.16A which contains an obligation which has been moved from clause 4.1.16 which is a Protected Provision. The IMO will seek advice from the Public Utilities Office to determine whether this should be made a Protected Provision.

The IMO will engage with the Public Utilities Office to progress these amendments.

## **2. Explain the reason for the degree of urgency:**

The IMO proposes to commence the proposed Amending Rules set out in this Rule Change Proposal in order to apply to the 2014 Reserve Capacity Cycle thus impacting the 2016/17 Capacity Year.

The IMO considers that this will provide appropriate signals for future investment decisions regarding new capacity from the 2016/17 Capacity Year onwards, while not adversely affecting any pre-existing contractual arrangements between Market Customers and Market Generators.





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**3. Provide any proposed specific changes to particular Rules:** *(for clarity, please use the current wording of the Rules and place a ~~strikethrough~~ where words are deleted and underline words added)*

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:

- (a) 16 September 2005, in the case of the first Reserve Capacity Cycle;
- (b) 18 August of Year 1, in the case of subsequent Reserve Capacity Cycles up to and including 2010; and
- (c) 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 this clause 4.1.16, the IMO must:

- (a) assign Capacity Credits in accordance with clause 4.20.5A(a); and
- (b) 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;

- (a) assign Capacity Credits in accordance with clause 4.20.5A(a); and
- (b) 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~~







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(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~~ up to and including 2013:

...

- 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 2014 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.



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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<sub>1</sub>, 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<sub>1</sub> 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;



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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

...

#### **4. Describe how the proposed Market Rule change would allow the Market Rules to better address the Wholesale Market Objectives:**

Clause 2.4.2 of the Market Rules states 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.

The IMO considers that this Rule Change Proposal will better achieve Wholesale Market Objectives (a) and (b) and is consistent with the remaining Wholesale Market Objectives.

*(a) to promote the economically efficient, safe and reliable production and supply of electricity and electricity related services in the South West interconnected system*

This Rule Change Proposal will better achieve objective (a) as it removes the instances of inefficient incentives for the early entry of capacity from Facilities when it is not required, thereby reducing the cost to the market where such payment does not provide commensurate market benefits.

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

This Rule Change Proposal will better achieve objective (d) by removing 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 tight.

#### **5. Provide any identifiable costs and benefits of the change:**

The benefits of the proposed amendments to the market as a whole include:

- removing the cost to the market of inefficient and ineffective payments to incentivise the early entry of capacity when it is not required, such as during times of excessive capacity;
- potential savings of an average of \$1.55 million per annum during periods of excess capacity if early entry capacity payments are removed at these times; and





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- by retaining the ability to provide early entry capacity payments where existing capacity cannot meet the Reserve Capacity Requirement, the Reserve Capacity Mechanism will continue to incentivise early entry of capacity at times it is required, mitigating against the risk of late entry.

### **Costs**

It is likely that the IMO will incur some minor costs to implement the necessary process changes to facilitate this Rule Change Proposal. However, these costs are not expected to be significant and are included in the IMO's existing operational budget.