# 1. INTRODUCTION

At its first meeting held on [illegible] February [illegible] the Market Advisory Committee (MAC) agreed to establish a Working Group to develop a revised Reserve Capacity Refund Mechanism. This requirement arose following identification of shortcomings with the present arrangements. In summary:

- The wording describing the refund mechanism in the Market Rules requires more clarity.
- The outworkings of the Market Rules do not reflect the intention of the refund mechanism.

The Working Group was established in March [illegible] under a Terms of Reference which is attached as Appendix [illegible].

The Working Group has met three times and has developed a structure for presentation to the MAC for discussion.

The Working Group has also developed a set of refund curves that could apply in various trading intervals and this is also provided to the MAC as a basis for a final refund arrangement for discussion.

# 2. THE REFUND MECHANISM

All facilities that have been assigned Capacity Credits are, unless they are undergoing an approved outage, required to make refunds to the market in the event that they are unable to offer their full capacity through bilateral contracts or into the STEM. The development of the original refund mechanism was based on a number of significant objectives for the success of the market, albeit that some of the objectives were conflicting.

- The level of refunds for each outage should be set at the appropriate level to provide the incentive for generators to meet their Reserve Capacity Obligations.
- There must be a very strong incentive on peaking plants to deliver capacity when required because there may be no other spare generation capacity available on the system, but these plants may only be called on to run for a few hours each year.
- There must be a strong incentive to encourage capacity providers to be fully available at peak times, but there must also be incentives for good performance at other times of the year when scheduled outages reduce the available system capacity.
- While refund levels should be high enough to encourage good operational performance, they should not be so high as to deter investment or force capacity providers to include an excessive risk component into their pricing.

The Working Group determined that equity between participants should also be considered in developing the mechanism, in particular for an outage of a given size.

s y M sho d inc r the s e e of ref nd irrespecti e of hether this s f o t ge of M nit or p rti o t ge of s y M nit

Ref nds re deter ined in ccord nce ith M r et R es e nd e Copies of these R es re tt ched s Appendi

Ref nds th t pp y co prise

- A ref nd e e th t pp ies in e ch pe or off pe tr ding inter
- A c p th t is pp ied per d y
- A c p th t is pp ied to the tot ref nd pp ic e in ny se son
- An nn c p sed on the o nt of Reser e C p city p y ents recei ed y the f ci ity

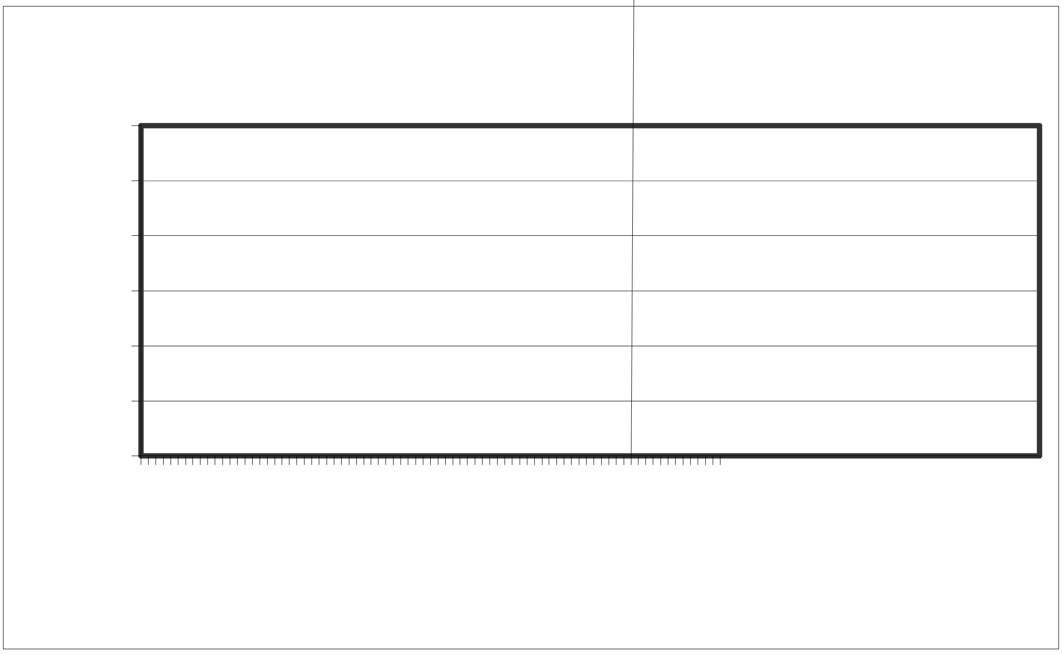
t s intended th t f ci ity th t e perienced short o t ge o d f ce high initi ref nd For onger o t ges the tot ref nd o d e c pped y the d i y se son he third option s not p rs ed in det . his pproach s considered to e ore s it e for n energy on y r et s ch s in the E stern t tes

## 4. REWORKING OF THE EXISTING MARKET RULES

he origin intention s to h e ref nd ech nis hich

- App ied high ref nd for the initi tr ding inte

**Figure 1 – Hot Season Refunds**
**(“Y” is set at $1.00 per Trading Interval.  Facility Capacity = 1 MW)**



After considera e a na ysis the or ing Gro p conc ded tha t it does not a ppea r possi e to f y a ddress a of these iss es ithin this a pproa ch a nd therefore de e oped a n a terna ti e

## 5. ALINTA SALES' INTERPRETATION OF THE MARKET RULES

he ref nd ta e in the Ma r et R es ses the ter per era ge M shortfa per ra ding nter o er a ea son nd Ma r et R e e defines the ref nd e e a s the Ma i ea son a Ra te deter ined in a ccorda nce ith the Ref nd a e tip ied y the era ge ra ding nter a Ca pa city of any o tage is i e y to e ess se ere For this reason it is proposed that a

## Table 2. Out Workings of Revised Refund Rates (for 2007/08)

| Month | Oct | No | Dec | n | Fe | Mr | Apr | My | n | | Ag | Sep |
|---|---|---|---|---|---|---|---|---|---|---|---|---|
| No of d ys | | | | | | | | | | | | |
| No of B siness D ys | | | | | | | | | | | | |
| No of non s d ys | | | | | | | | | | | | |
| | | | | | | | | | | | | |
| Ref nd r tes per r ding nter | | | | | | | | | | | | |
| B siness d ys Pe is | | | | | e | e | | | | | | |
| Non B s d ys Pe is | | | | | | | | | | | | |
| A d ys Off pe is | | | | | | | | | | | | |
| | | | | | | | | | | | | |
| A er ge ref nd for contin o s f o t ge | | | | | | | | | | | | |
| A er ge for siness d y | | | | | | | | | | | | |
| A er ge for non s d y | | | | | | | | | | | | |
| | | | | | | | | | | | | |
| A er ge for onth | | e | | | | | | | | | | e |

he three ines high ighted in ye o sho the ref nd r tes th t o d pp y in e ch r ding nter hese re t en direct y fro e his sho s the three r tes th t pp y to

- B siness d y pe r ding nter s
- Non siness d y pe r ding nter s
- Non pe r ding nter s for oth siness nd non siness d ys

he t o ines high ighted in green sho the er ge ref nd r te th t o d pp y to f ci ity th t h s forced o t ge e tending for f d y he c rrent pro isions of the M r et R es h e i d i y ref nd r te hich is c pped t ti es Y nder the proposed rr nge ent the i d i y ref nd is red ced

- On siness d ys in the ot e son the d i y i ref nd o d e ti es Y for Dece er nd n ry nd ne r y ti es Y for the Fe r ry nd M rch
- he i ref nds for f o t ge on non siness d ys o d e ti es Y or ti es Y

he three fig res high ighted in e sho the er ge ref nd e e th t o d pp y to f ci ity th t h s forced o t ge hich sts for f se son

- ti es Y for n o t ge th t sts the f nter edi te e son
- ti es Y for n o t ge sting the f ot e son
- ti es Y for n o t ge sting the f Co d e son

hese ref nd r tes re itt e higher th n the se son c ps th t re in the c rrent M r et R es

he st ine on the t e sho s the cc tion of ref nds th t o d occ r if f ci ity h s forced o t ge th t co ences t the st rt of the c p city ye r nd

## *Appendix 1 - Terms of Reference*

### *The Reserve Capacity Refund Mechanism Group*

**SCOPE**

he Reser e C p city Ref nd rr nge ents need to e etter igned ith the M r et O ecti es nd the origin intent of the Reser e C p city Ref nd concept he MO h s prep red disc ssion p per th t o tines the iss es ith the c rrent M r et R e pro isions nd h s p t for rd so e tern ti e rr nge ents for consider tion

n order to propose n tern ti e set of ref nd r

## *Appendix 2 – Market Rules*

### Market Rule 4.26.1

If a Market Participant holding Capacity Credits fails to comply with its Reserve Capacity Obligations then the Market Participant must pay a refund to the IMO calculated in accordance with the following provisions:

**REFUND TABLE**

| **Season** | **Cold** | **Intermediate** | **Hot** |
|---|---|---|---|
| D tes | Apri to Octo er | Octo er to Dece er | Dece er to Apri |

**Market Rule 4.26.3**

For e ch M r et P rticip nt ho ding C p city Credits the MO st deter ine the o nt of the ref nd **Capacity Cost Refund** to e pp ied for r ding Month in respect of C p city hortf s defined in c ses d ring th t r ding Month he C p city Cost Ref nd is the esser of

the M i Ref nd deter ined in ccord nce ith the Ref nd e ess C p city Cost Ref nds pp ic e to the M r et P rticip nt in pre io s r ding Months f ing in the s e C p city Ye r s r ding Month nd

the M i e son R te deter ined in ccord nce ith the Ref nd e tip ied y the er ge r ding nter C p city hortf c c ted o er the e son ithin hich r ding Month f s ess the s of the C p city Cost Ref nd