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2. THE RULE CHANGE PROPOSAL

1.1 *Submission Details*

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Date submitted:	28/02/2008
Urgency:	Medium
Change Proposal title:	Energy Price Limits Methodology

1.2 *Details of the Proposal*

The IMO submitted that, in accordance with Market Rule 6.20.6, the IMO must annually review the appropriateness of the value of the Energy Price Limits. In 2007, the annual review also examined the cost assumptions and methodology for determining the price caps. Subsequent to the review, the Market Advisory Committee convened an Energy Price Limits Working Group to consider the various issues that were raised in the review's final report, which is available on the IMO website. The Rule Change Proposal by the IMO was a result of the Working Group's deliberations.

The IMO proposed the following changes to the methodology for

be fully recovered through the pay-as-bid prices under the provisions of the Market Rules. The small cost of shutting down a unit would also be covered by the proposed inclusion of start up costs. It was therefore proposed that the clauses pertaining to the Maximum Shutdown Cost be deleted from the Market Rules, as they do not appear to be either necessary or appropriate.

1.1 ***The Proposal and the Market Objectives***

The IMO's submission regarding how the amendments will allow the Market Rules to better address the market objectives can be found in section 4.1.2 of this Report.

1.1 ***Amendments Proposed by the IMO***

The amendments to the Market Rules proposed by the IMO are available in section 6 of this report.

1.1 ***The IMO's Initial Assessment of the Proposal***

The IMO decided to proceed with the proposal on the basis of its preliminary assessment, which indicated that the proposal was consistent with the Wholesale Market Objectives. This preliminary assessment was published in a Rule Change Notice on 29 February 2008.

3. SUBMISSIONS

The IMO received two submissions, from the Economic Regulation Authority and Landfill Gas & Power Pty Ltd, on the changes proposed by the IMO. The submissions are summarised below, and their full text is available on the IMO website.

Market Advisory Committee

The Market Advisory Committee (MAC) was first advised of the proposed rule change at its meeting on 13 February 2008, when the IMO also presented the Energy Price Limit's Working Group's Report, which is available on the IMO's website <http://www.imowa.com.au>. MAC supported the results from the Working Group and the IMO submitting the change as a formal Rule Change Proposal.

MAC members were also invited to discuss the proposal at the MAC meeting on 12 March 2008, after the proposal had been published on the IMO website. All members of MAC expressed their support for the Rule Change.

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

The proposed amendments allow the Market Rules to better address market objective (b) as the prescribed treatment of start up costs will enable legitimate costs to be included in the determination of the Energy Price Limits. This change, and the change pertaining to the treatment of heat rates, will provide confidence to generators that they can recover their Short Run Marginal Cost in all circumstances. This will help provide certainty to generators and promote future investment.

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

The proposed amendments allow the Market Rules to better address market objective (d) by allowing customers to benefit from the removal of the shut down prices, since this will prevent potential double counting of costs in the market and assist in minimising the overall market costs/prices.

In accordance with Clause 2.4.3(b) of the Market Rules, in deciding whether or not to make Amending Rules, the IMO must also have regard to the practicality and cost of implementing the Amending Rules.

The proposed changes will not require any changes to the Wholesale Electricity Market Systems operated by the IMO. No other costs have been identified in relation to the implementation of the proposed changes.

IMO's Draft Decision

The IMO's draft decision is to implement the proposed amendments to clauses 2.34.14, 6.18.1, 6.18.2, 6.18.3, 6.20.1, 6.20.5, 6.20.7, 6.20.8, 10.5.1 and Appendix 1 of the Wholesale Electricity Market Rules.

The IMO has made its draft decision on the basis that the resulting Amending Rules will allow the Market Rules to better address the Wholesale Market Objectives.

The wording of the relevant Amending Rules is presented in section 6 of this Report.

5. CALL FOR SUBMISSIONS

The IMO wishes to receive submissions regarding 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 close of business on Tuesday 10 June 2008.

The IMO prefers to receive submissions by email to marketadmin@imowa.com.au using the submission form available on the IMO website:

http://www.imowa.com.au/10_5_1_b_rule_change_proposal.htm

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

Independent Market Operator

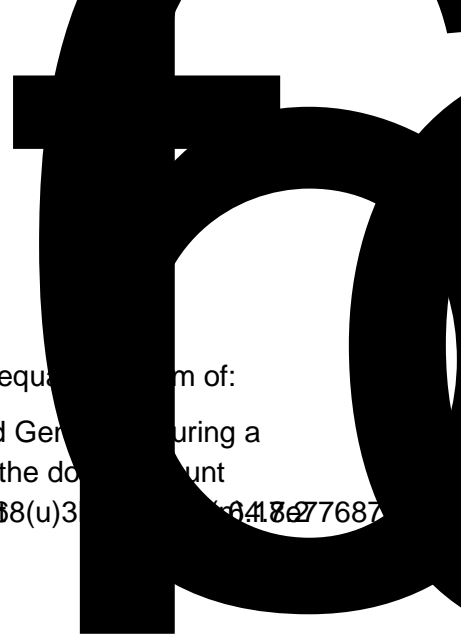
Attn: Manager Market Administration

PO Box 7096

Cloisters Square, Perth, WA 6850

Fax: (08) 9254 4399

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Case 1:17-cv-01000

- 6.18.2. Subject to clause 6.18.3, the Commitment Compensation equals the sum of:
- (a) for each additional start up required of a Scheduled Generator during a Peak Trading Interval or Off-Peak Trading Interval the dollar amount for a commitment of the Facility specified in StanR68(u)3 641877687

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- ~~(c) The factors considered in setting the Maximum Shutdown Price must be limited to:~~
- ~~i. average MCAP in Off-Peak Trading Intervals;~~
 - ~~ii. the expected duration of shut-downs;~~
 - ~~iii. minimum generation capacity of the unit most likely to be required to be shutdown;~~
 - ~~iv. average of that unit's heat rate at minimum and maximum capacities, expressed in GJ/MWh;~~
 - ~~v. variable fuel costs of that unit expressed in \$/GJ; and~~
 - ~~vi. variable operating and maintenance costs of that unit, expressed in \$/MWh.~~

~~Case 11~~

10.5.1.

- (e) details of bid, offer and clearing price limits as approved by the Economic Regulation Authority including:
- i. the Maximum Reserve Capacity Price;
 - ii. the Maximum STEM Price;
 - iii. the Alternative Maximum STEM Price;
 - iv. the Minimum STEM Price; ~~and~~
 - v. ~~the Maximum Shutdown Price,~~

~~Chapter~~

Energy Price Limits: The set of price limits comprising the Maximum STEM Price, the Alternative Maximum STEM Price, and the Minimum STEM Price ~~and the Maximum Shutdown Price~~

Appendix

(c) for a Scheduled Generator not registered to the Electricity Generation Corporation:

- i. a commitment ~~and decommitment~~ cost data comprising:
 - 1. a whole dollar amount representing the cost of committing the facility, where this amount must represent reasonable costs incurred in the typical start-up as justified by supporting evidence.
 - 2. ~~a whole dollar amount representing the cost of de-committing the facility, where this amount must not exceed the Maximum Shutdown Price multiplied by the minimum dispatchable loading level defined in b(xiv);~~

7. GENERAL INFORMATION ABOUT RULE CHANGE PROPOSALS

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

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

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

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