





## 1. INTRODUCTION

On 21 April 200 the Independent Market Operator (IMO) submitted a Rule Change Proposal regarding changes to clauses 4.1.1A, 4.1.2, 4.1.3, 4.11.1, 4.12, 4.13, 4.14, 4.15, 4.16, 4.17, 4.18, 4.19, 4.20, 4.21, 4.22, 4.23, 4.24, 4.25, 4.26, 4.27, 4.28, 4.29, 4.30, 4.31, 4.32, 4.33, 4.34, 4.35, 4.36, 4.37, 4.38, 4.39, 4.40, 4.41, 4.42, 4.43, 4.44, 4.45, 4.46, 4.47, 4.48, 4.49, 4.50, 4.51, 4.52, 4.53, 4.54, 4.55, 4.56, 4.57, 4.58, 4.59, 4.60, 4.61, 4.62, 4.63, 4.64, 4.65, 4.66, 4.67, 4.68, 4.69, 4.70, 4.71, 4.72, 4.73, 4.74, 4.75, 4.76, 4.77, 4.78, 4.79, 4.80, 4.81, 4.82, 4.83, 4.84, 4.85, 4.86, 4.87, 4.88, 4.89, 4.90, 4.91, 4.92, 4.93, 4.94, 4.95, 4.96, 4.97, 4.98, 4.99, 5.00, Chapter 11 Glossary and Appendix A, and the addition of clauses 4.1.1C,

## 2 CALL FOR SECOND ROUND SUBMISSIONS

The IMO invites interested stakeholders to make submissions on this Draft Rule Change Report. The submission period is 30 Business Days from the publication date of this report. Submissions must be delivered to the IMO by 5.00pm, **Tuesday 4 August 2009**.

The IMO prefers to receive submissions by email to

In its proposal, the IMO considered that there is merit in providing additional security to project developers who can demonstrate commitment to a project beyond the current timeframes. This would facilitate new entry to the market and therefore promote competition.

For new generation Facilities, the IMO proposed to extend the timeframes for Certification of Reserve Capacity and assignment of Capacity Credits. This will allow projects with long lead times to secure Capacity Credits earlier and provide greater certainty for investors. Since longer lead times are mostly relevant for new plant, the IMO proposed that the new timeframe apply only to new generation Facilities. It will not apply to upgrades to generation Facilities or to Demand Side Programmes.

To distinguish this option from the normal certification process in the Rules, the IMO proposed to introduce a new concept of **Early Certified Reserve Capacity** (ECRC) in conjunction with the current Conditional Certification of Reserve Capacity provisions. ECRC, and subsequently assigned y4 . 1 2(F)eEar1-1-W(s)-0.1-1-W(e)y Cr





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The IMO notes that proposed Facilities only receive Capacity Credits under the current Market Rules where there is a short fall. However, committed Facilities that declare their intention to trade bilaterally are guaranteed Capacity Credits. Therefore moving the timeframe that these Facilities receive Capacity

The IMO notes that there would be no difference under the proposed Amending Rules as currently while there is uncertainty about the level of Capacity Credits that may be granted to a Facility it is unlikely that Capacity Credits will not be assigned to a Facility which is “in service or “committed/under construction Facility. Alinta notes this point in its submission. The IMO contends that the proposed changes will improve the transparency and certainty for developers making decisions.

- Alinta notes that the proposal does not define a long lead time.

The IMO notes that the purpose of the Rule Change Proposal is not to define a long lead time. Anyone who can demonstrate that they are committed to building a Facility can enter into the process and this timeframe can differ considerably between generation projects..

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***Additional Amendments***

During the first public submission period the IMO considered that some changes to the proposed Amending Rules were required to improve the drafting.

These changes are as follows (~~deleted text~~, added text)

- 4.11.1. Subject to clause 4.11. , the IMO must apply the following principles in assigning a quantity of Certified Reserve Capacity to a Facility for the Reserve

specified in clause 4.2 C. , else the Early Certified Reserve Capacity assigned to the Facility will lapse.

4.2 C.10. The IMO must set the Capacity Credits for the Facility to equal the Early Certified Reserve Capacity of the Facility once the Reserve Capacity Security is provided to the IMO under clause 4.2 C. .

4.2 C.12. The Reserve Capacity Security provided by the Market Participant under clause 4.2 C4 (b) must, by the time and date in clause 4.1.1 (a), in year 1 of the first Reserve Capacity Cycle in which the Facility will commence operation be recalculated in accordance with 4.2 C. , and the difference paid to the IMO or refunded to the Market Participant as applicable,

### Appendix 3: Reserve Capacity Auction & Trade Methodology

- o For the testing of bilateral trades, for Availability Class a 1 this is the greater of zero and  $Q a \setminus X a$  while for Availability Classes a

Additionally, clause 24 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 in respect of this Rule Change Proposal.

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

**Wholesale Market Objectives**

The IMO considers that the Market Rules as a whole, if amended, will be consistent with the Wholesale Market Objectives.

Wholesale Market Objective	Consistent with objective
(a) to promote the economically efficient, safe and reliable production and supply of electricity and electricity related services in the South West interconnected system	Yes
(b) to encourage competition among generators and retailers in the South West interconnected system, including by facilitating efficient entry of new competitors	Yes
(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	Yes
(d) to minimise the long-term cost of electricity supplied to customers from the South West interconnected system	Yes
(e) to encourage the taking of	

- (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 changes will support market objective (a) by facilitating the efficient entry of new competitors which will likely lead to a more economically efficient combination of generation investment as the proposed changes target generators with long lead times.

The IMO's assessment against market objective (b) is as follows

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

The proposed changes will support market objective (b) by facilitating the entry of new generation Facilities with long lead times as it will add certainty to the income stream around Capacity Credits. It is expected that this will have a positive effect on the ability of a Market Participant to secure financing for a new generation.

The IMO considers that the proposed changes are consistent with the other market objectives.

#### ***Practicality and Cost of Implementation***

The proposed changes will also require some changes to the Wholesale Electricity Market Systems operated by the IMO. The cost of these changes is currently being investigated by the IMO.

#### ***Views expressed in submissions***

The proposed changes had mixed support during the first submission period. Of the four formal submissions received, Aviva, LGP and Griffin supported the proposal. The main supporting reason was that the Rule Change Proposal facilitates the financing of long lead time generation projects by removing an inherent discrimination in the Market Rules.

In its submission LGP did however question whether clause 4.2 C.1 may not achieve the anticipated outcome as a Facility is unlikely to be committed prior to receipt of certification.

Alinta did not support the proposed changes. In particular, Alinta considers that the Rule Change Proposal lacks certain benefits, would introduce additional complexity into the Market Rules, and may result in less efficient market outcomes.

The IMO's response to the issues raised in Alinta and LGP's submissions is contained in section 4.2 of this Draft Rule Change Report. The IMO does not consider that any of the points raised provide sufficient evidence that the proposed changes will not have the

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extending the timeframe associated with building projects (currently 2 months) in order to provide additional security to project developers by removing Conditional Certification and replacing it with guaranteed CRC when a Facility meets the eligibility criteria.

All MAC members expressed support for extending the timeframe associated with building projects, which will allow for long lead time projects to secure Capacity Credits earlier. MAC members were also provided an opportunity to make an out of session submission on the concept to the IMO. The IMO received a submission from Alinta questioning whether the changes proposed would provide financiers with any greater certainty than already exists under the existing arrangements. The IMO also received informal feedback from discussions with new entrant generators suggesting that Conditional Certification is useful when acquiring project finance.

In response, the IMO decided to maintain the concept of Conditional Certification and, as previously proposed, seek to introduce the new concept of receiving ECRC to the Market Rules. The IMO presented these additional considerations to the MAC in an updated concept paper (CP 200 01) for discussion at the 11 February 200 meeting.

At the meeting it was noted that ECRC is “normal CRC, except that it is to be approved earlier than current timeframes allow. This is still contingent on Facilities being committed. A member asked the IMO to consider whether it is unreasonably onerous to require a Facility to be “under construction before it can apply for ECRC and also require it to file the security deposit before it i

- Have the support of the majority of submissions during the first submission period.

Additional detail outlining the analysis behind the IMO's reasons is outlined in section 5 of this Draft Rule Change Report.

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

## **7. PROPOSED AMENDING RULES**

The IMO proposes to implement the following amendme



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(b) are not eligible to have a Long Term Special Price Arrangements or Short Term Special Price Arrangements associated with them.

4.2 C.1. The IMO must document the process for applying for and approving Capacity Credits in accordance with this clause 4.2 C in the Reserve Capacity Procedure, and the IMO and Market Participants must follow that documented Market Procedure.

## **CHAPTER 11**

**Capacity Credit** A notional unit of Reserve Capacity provided by a Facility during a Capacity Year. The total number of Capacity Credits provided by a Facility is determined in accordance with clause 4.2.1 or clause 4.2 B, or clause 4.2 C. Each Capacity Credit is equivalent to 1MW of Reserve Capacity. The Capacity Credits to be provided by a Facility are held by the Market Participant registered in respect of that Facility. The number of Capacity Credits to be provided by a Facility may be reduced in certain circumstances under the Market Rules, including under clause 4.2.4 or adjusted under clause 4.2.11.

**Early Certified Reserve Capacity** Reserve Capacity which is certified and assigned to a new Facility by the IMO for a future Reserve Capacity Cycle under clause 4.2 C.

**Reserve Capacity Obligations** For a Market Participant holding Capacity Credits, determined in accordance with clause 4.1.2.1 or clause 4.2 B or clause 4.2 C.

**Reserve Capacity Obligation Quantity** The specific amount of capacity required to be provided in a Trading Interval as part of a Reserve Capacity Obligation set by the IMO in accordance with clauses 4.1.2.4 and 4.1.2.5, or clauses 4.2 B or 4.2 C as adjusted from time to time in accordance with these Market Rules, including under clause 4.1.2.11.

### **Appendix 3: Reserve Capacity Auction & Trade Methodology**

- o For the testing of bilateral trades, for Availability Class a 1 this is the greater of zero and  $Q_a - X_a$  while for Availability Classes a

$Y^a$  represents the amount by which  $(X^a + Y^{a-1})$