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## 2. CALL FOR SECOND ROUND SUBMISSIONS

The IMO invites interested stakeholders to make submissions on 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 5:00pm, **Friday 21 August 2009**.

The IMO prefers to receive submissions by email to: [market.development@imowa.com.au](mailto:market.development@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](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 Development and System Capacity  
 PO Box 7096  
 Cloisters Square, PERTH, WA 6850  
 Fax: (08) 9254 4399

## 3. THE RULE CHANGE PROPOSAL

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<b>Date submitted:</b>	5 May 2009
<b>Urgency:</b>	Standard Rule Change Process
<b>Change Proposal title:</b>	Reserve Capacity Refund price calculation

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Clause 4.26.1 of the Market Rules includes a Refund Table, which is used to calculate h68(l)4.47682

The Excess Capacity Adjustment (ECA) reflects the extent of any surplus Capacity Credits assigned by the IMO over and above the Reserve Capacity Requirement for the relevant Capacity Year) and is equal to the minimum of:

- one; and
- the Reserve Capacity Requirement for the Reserve Capacity Cycle divided by the total number of Capacity Credits assigned by the IMO for the Reserve Capacity Cycle; and

When applying clause 4.26.1 in combination with clause 4.29.1 the IMO posits that the interpretation of 4.26.1 is ambiguous and can be applied two alternative ways.

### Example and Analysis

The main concern with clause 4.26.1 is with the calculation of Y in the years where the ECA in clause 4.29.1(c) is greater than one, i.e. the number of Capacity Credits assigned by the IMO for the year is more than the Reserve Capacity Requirement.

By way of example, the ECA for the 2008/09 Reserve Capacity Cycle would be:

Reserve Capacity Requirement<sup>1</sup> = 4322

Capacity Credits assigned<sup>2</sup> = 4599.875

$$\begin{aligned} \text{ECA} &= \frac{\text{RCR}}{\text{CC}} \\ &= \frac{4322}{4599.875} \\ &= 0.9396 \end{aligned}$$

The Monthly Reserve Capacity Price is based on the Maximum Reserve Capacity Price (\$122,500 for 2008/09 cycle) and is used to set the unit price of Capacity Credits paid to holders of Capacity Credits. It is also used to set the price at which refunds of those payments are paid.

### Alternative one

Alternative two

When calculated in accordance with the method given by 4.29.1, yields the following value:

$$\begin{aligned}
 \text{Monthly RCP} &= \frac{(\text{Max RCP} * 0.85 * \text{ECA})}{12} \\
 &= \frac{(122,500 * 0.85 * 0.9396)}{12} \\
 &= \$8152.91
 \end{aligned}$$

In the absence of clarity within the Market Rules, there are three options available for settlement purposes:

1. **Option one:** Apply alternative one (clause 4.26.1) to both Capacity Credit payments and Capacity Cost Refund calculations. This would have the effect not taking into account the ECA factor and, as a result, overcharging Market Customers for Reserve Capacity.
2. **Option two:** Apply alternative two (clause 4.29.1) to both Capacity Credit payments and Capacity Cost Refund calculations. This means that the definition in the table of MR 4.26.1 is not applied, but ensures payments for Capacity Credits and Capacity Cost Refund amounts are consistently applied by taking into account oversupply via the ECA.
3. **Option three:** Apply alternative one (clause 4.26.1) to Capacity Cost Refund calculations, and alternative two (clause 4.29.1) to Capacity Credit payments which would result in holders of Capacity Credits being charged more in relation to the payments with regards to Capacity Cost Refund amounts.

explicitly incorporate the Excess Capacity Adjustment Value in the calculations of any Capacity Cost Refunds. Therefore the IMO recommends that the calculation methodology of 4.29.1 should be applied to both Capacity Credit payments and Capacity Cost Refund calculations.

The objective of this Rule Change Proposal is to provide clarity around the calculation of the Capacity Cost Refunds and to link the calculation of these refunds to the Monthly Reserve Capacity Price (as defined in 4.29.1), ensuring that both the original payment for Capacity Credits and any related Capacity Cost Refunds are calculated on the same basis.

**33 e o p o n d e o e e M e O e c . e**

In the Rule Change Proposal the IMO submitted that it considers that the proposed Amending Rules remove ambiguity, provide consistency in the calculation of both

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Griffin Energy supports the Rule Change Proposal as a necessary amendment to an inconsistency brought about by the introduction of the ECA in a previous rule change.

Griffin Energy considers that the Rule Change Proposal is an amendment to the Market





<b>Wholesale Market Objective</b>	<b>Consistent with objective</b>
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	Yes

The IMO considers that the proposed Amending Rules



