

## 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 IM includill not be available for the relevant





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





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





**3.**



(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 4.20.5

...

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:

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