

Papps, Jacinda

From: Papps, Jacinda
Sent: Tuesday, 15 December 2009 4:36 PM
To: MarketAdmin
Subject: Response to action items from MAC meeting

Dear MAC members,

I have outlined the IMO's response to some of the points raised at the 9 December 2009 MAC meeting below:

“Energy Price Limits review Wash-up” Rule Change (PRC_2009_35):

We have investigated the two points raised by Landfill Gas & Power. An outline of the points raised and our response is provided below:

- LGP questioned whether the difference between “may” and “must” in the rules regarding requests for submissions is deliberate.

To clarify, the use of the word “may” and “must” in the proposed Amending Rules is to reflect that the IMO may undertake a further consultation period if required and that if the IMO determines to undertake further consultation it must do so with all sectors of the Western Australian energy industry, including end-users. To further clarify this requirement we have amended the drafting as follows:

6.20.9A. Prior to proposing a final revised value to an Energy Price Limit in accordance with clause 6.20.10, the IMO may publish a request for further submissions on the Market Web Site. Where the IMO publishes a request for further submissions in accordance with this clause, it must request submissions from all sectors of the Western Australia energy industry, including end-users.

- LGP questioned the use of the 80th percentile in the Maximum STEM Price calculation, but the 90th percentile in the Alternative Maximum STEM Price calculation.

We note that the proposed changes to the Market Rules to refer to the 80th and 90th percentiles in the Maximum STEM Price and Alternative Maximum STEM Price calculations, respectively, reflect the probabilities that the assessed cap price values would be higher than any particular random outcome in the market for 40 MW gas turbines. The proposed percentiles to apply for the Maximum and Alternative Maximum STEM prices reflect those adopted by MMA in past reviews (including the 2009 Energy Price Limits review). These percentiles were determined based on the IMO's perception of uncertainty and current market operations. In particular, MMA notes in its Final Report for the 2009 review that a conservative risk margin based on 80th probability provides a risk margin of about 15% over the expected level of costs of peaking power from 40 MW gas turbines. Larger gas turbines would not be affected by these considerations because of their lower unit cost structure and longer run times in the STEM.

In the case of the use of distillate (Alternative Maximum STEM Price calculations), the price is adjusted monthly to track changes in distillate prices and therefore the uncertainty only applies to the operating and maintenance costs and the heat rates. During past review MMA has proposed that a 90% probability is suitable for assessing the parameters of the Alternative Maximum STEM Price, however following the 2009 review MMA suggested adopting a 80% probability for the liquids price cap. This is in view of the gap between STEM prices and the Alternative Maximum STEM Price during the Varanus Island incident in 2008. For more details refer to MMA's Final Report: http://www.imowa.com.au/2009_EPL_Review

Note: the IMO called for submissions on reducing the probability level during the formal public consultation process. The IMO did not receive any submissions on this proposition during this time. However, during the clarification process the IMO did receive a submission from Synergy suggesting that the IMO should review the probability level to apply to the Alternative Maximum STEM Price calculation as part of the overall review process for the 2010/11 Capacity Year. We have included this in the proposed scope for the 2011 EPL review.

- Additionally, the IMO has amended the title of the Rule Change Proposal to “Energy Price Limits Methodology and Consultation Process” to be more reflective of its content.

We will look to formally submit this Rule Change Proposal late next week or very early in the New Year. Please let me know if you have any additional queries.

PC_2009_12: Determination of the MRCP Price

At the MAC meeting there was a discussion on extending the submission period for this procedure change proposal.

We have investigated this and although the Market Rules allow for an extension for the rule change process, they are silent for the procedure change process. Given the ability to extend is not mentioned for procedure changes (whereas it is for rule changes) we consider this suggests that it was intended to be that way. Therefore we consider that we are unable to extend the submission period.

As previously advised, submissions for PC_2009_12 close 4.00pm, 18 December 2009. For more information please see: www.imowa.com.au/PC_2009_12

If you have any additional questions or comments, please let me know.

Regards
Jacinda

Jacinda Papps | Senior Analyst

Independent Market Operator

Level 3 Governor Stirling Tower, 197 St Georges Terrace, Perth WA 6000
PO Box 7096 Cloisters Square, Perth WA 6850
T +61 8 9254 4353 · M +61 421 585 114 · F +61 8 9254 4399
E jacinda.papps@imowa.com.au · W <http://www.imowa.com.au>

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