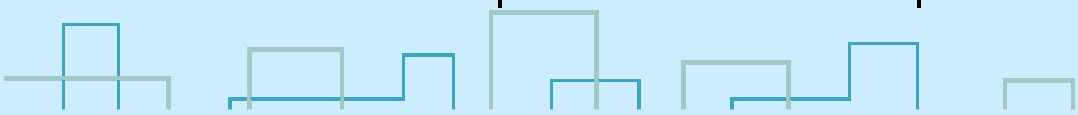
Independent Market Operator



Rule Change Notice

Title: IRCR for new meters – customer peak load diversity

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INTRODUCTION

Market Rule 2.5.1 of the Wholesale Electricity 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 submit this to the Independent Market Operator (IMO).

The IMO will assess the proposal and, within 5 Business Days of receiving the Rule Change Proposal Form, will notify the proponent whether the Rule Change Proposal will be progressed further.

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 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.

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

THE RULE CHANGE PROPOSAL

The Submission

Alinta submitted, on 26 June 2007, a Rule Change Proposal regarding a change to Appendix 5 of the Wholesale Electricity Market Rules.

This Rule Change Notice is published according to Market Rule 2.5.7, which requires the IMO to publish a notice within 7 Business Days of receiving a Rule Change Proposal.

Submission details

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Organisation:	Alinta Sales Pty Ltd
Date submitted:	26/06/2007
Urgency:	Fast Track
Change Proposal title:	IRCR for new meters – customer peak load diversity

Details of the Proposal

Currently, when a customer without interval meter readings in the previous hot season transfers to a new retailer, its Temperature Dependent Load for Individual Reserve Capacity Requirements (IRCR) determination is assumed to be its Contract Maximum Demand (CMD) or 1.1 times the MW figure formed by doubling the maximum Trading Interval demand by that customer (Appendix 5, step 5).

Alinta has submitted that this approach significantly overstates the new retailer's IRCR as it does not take into account the diversity between peak loads on the SWIS. Individual customers' demand generally peaks in different intervals and the current methodology does not take that into account. For example, customers peaking at different times of the day, on weekends, or even in the evenings, are effectively all assumed to occur at the same time when determining the new retailer's IRCR.

Alinta has estimated that the current treatment of loads without prior meter history leads to an increase in the IRCR requirement of about 60% compared to the methodology that applies to loads with meter history covering the relevant 12 intervals of the previous hot season.

In its submission, Alinta states that the current treatment of the IRCR calculation, for Temperature Dependent Loads without interval meter readings in the previous hot season, is detrimental to achieving the following objectives of the market:

Objective	Identified deficiency
(a)	The current treatment is significantly distorting the cost of supplying these customers potentially leading to economically inefficient production and supply of electricity to these customers.
(b)	The current treatment is a significant barrier to new retail entry and reduces the competitive pressure amongst retailers in the SWIS by allowing preferential treatment of the incumbent retailer.
(d)	The current treatment does not efficiently contribute to minimising the long-term cost of electricity because of the reduced competitive pressure identified in (b) and the distorted cost signals identified in (a).
(e)	The current treatment does not efficiently contribute to the aim of encouraging measures to manage the timing of the use of capacity. In the short term customers have very limited ability to influence their overall capacity requirements. However, they do have the ability to influence when the maximum capacity is used, but are not incentivised to do so with the current treatment of the IRCR calculation for the group of customers without interval meter history for the preceding hot season.

To address these issues, Alinta has proposed that each new meter without hot season interval readings is assigned an amount equal to its actual demand in the interval that the SWIS peaks in each month. This change is to ensure that the diversity of the particular customer's use of system capacity is reflected in the IRCR calculation.

Changes to Appendix 5, Step 5, will be required to implement this rule change.

Alinta has also proposed to change Appendix 5 to put beyond any doubt that the IRCR's for new meters are recalculated each month until Hot Season data becomes available for those meters. This is to ensure that the proposed changes do not create gaming opportunities in the market.

In addition, Appendix 5, Step 5, defines new meters as follows: "When determining the Individual Reserve Capacity Requirements for Trading Month n identify meters that were not registered with the IMO during the preceding Hot Season but which were registered by the start of Trading Month n-3".

However, where a new meter is brought on during the hot season, but after the 12 peak Trading Intervals, this meter would not be attributed an IRCR. For example, a 10MW load, whose interval meter is commissioned on 20 March, is "registered during the Hot Season". If the last peak Trading Interval occurred on 7 March, however, the relevant load would not be attributed any IRCR for a period of 18 months.

To avoid any potential for gaming by bringing on new meters towards the end of the Hot Season, Alinta proposes that new meters will need to have recorded a reading for all of the 12 peak Trading Intervals during the Hot Season to be treated in the "normal way" for calculation of IRCR. If new meters do not have recorded meter readings for all 12 Peak Trading intervals during the preceding Hot Season, they will be treated under the alternative way proposed below for new meters.

The Proposal and the Market Objectives

In its submission, Alinta argues that the proposed change to the Market Rules will improve the accuracy in cost allocation between retailers by more accurately reflecting the diversity of customers that do not have interval meter reading history for the preceding hot season.

The change will remove a significant disadvantage that currently applies to all but the incumbent retailer. The change will therefore facilitate competition in the supply of electricity and contribute to minimising the long term cost of electricity in the SWIS.

Alinta also argues that the change would allow customers to influence their contribution to IRCR by influencing their peak usage to fall at other times than the SWIS peak usage. The current rules do not give these customers any incentive to take into account their time of use pattern as their IRCR calculation is linked to their individual maximum consumption interval regardless of the time that consumption occurs.

For the reasons set out above, Alinta considers the change will better facilitate the achievement of objectives (a), (b), (d) and (e) of the Market Rules.

WHETHER THE PROPOSAL WILL BE PROGRESSED FURTHER

Alinta has requested that this change proposal be progressed under the Fast Track rule change process for the following reason:

This change is urgently required and is essential for the effective operation of the market. The current version of the market rules presents a significant barrier to churn which impacts on retail competition and slows down the churn rate. Ultimately, this inefficiency in the operation of the market flows through to the end user through less downward pressure on prices.

The IMO has decided to proceed with this proposal on the basis that the IMO's preliminary assessment indicated that the proposal is consistent with the Market Objectives.

The IMO has decided to process this Rule Change Proposal using the Fast Track Process, described in section 2.6 of the Wholesale Electricity Market Rules.

Clause 2.5.9 states:

> *The IMO may subject a Rule Change Proposal to the Fast Track Rule Change Process if, in its opinion, the Rule Change Proposal:*
>
> *(a) is of a minor or procedural nature; or*
>
> *(b) is required to correct a manifest error; or*
>
> *(c) is urgently required and is essential for the safe, effective and reliable operation of the market or the SWIS.*

The IMO has conducted its own analysis, which has largely confirmed Alinta's findings. The current Appendix 5 could give rise to disproportionally high IRCRs for new interval meters and create an undue cost for retailers successfully competing for customers. This has the potential to discourage competition among retailers and negatively impact on the effectiveness of the electricity market operations. The change is, therefore, considered to be urgently needed in order to facilitate market effectiveness and avoid further undue costs for retailers competing for existing or new customers.

The projected timelines for processing this proposal are:

- This Rule Change Notice published 04/07/2007
- Consultation period 05/07/2007 - 25/07/2007
- Final Report published 01/08/2007

PROPOSED AMENDING RULE

Appendix 5 is proposed to be amended as follows:

Appendix 5: Individual Reserve Capacity Requirements

This Appendix presents the method for annually setting and monthly adjusting Individual Reserve Capacity Requirements.

For the purpose of this Appendix:

- Steps 1 to 10 are repeated every month.
- [other dot points not shown]

[balance of text not changed]

STEP 5: When determining the Individual Reserve Capacity Requirements for Trading Month n identify meters that were not registered with the IMO

during one or more of the 12 peak Trading Intervals in the preceding Hot Season but which were registered by the start of Trading Month n-3.

Identify the 4 Peak SWIS Trading Intervals of Trading Month n-3, being the 4 highest demand Trading Intervals, where demand refers to total demand, net of embedded generation, in the SWIS.

For a new meter u that measures Non-Temperature Dependent Load ~~set NMNTCR(u) equal to the Contractual Maximum Demand associated with that meter if such a value is stated in the corresponding consumer's Arrangement for Access applicable from Trading Month n-3, otherwise~~ set NMNTCR(u) to be 1.1 times the MW figure formed by doubling the maximum Trading Interval demand for that meter during Trading Month n-3.
For a new meter v that measures Temperature Dependent Load set NMTDCR(v) ~~equal to the Contractual Maximum Demand associated with that meter if such a value is stated in the corresponding consumer's Arrangement for Access applicable from Trading Month n-3, otherwise set NMTDCR(v)~~ to be 1.1 times the MW figure formed by doubling ~~the maximum Trading Interval demand for that meter during~~ the median value of the metered consumption for that meter during the 4 Peak SWIS Trading Intervals of Trading Month n-3.

For a new meter w that measures Intermittent Load set IILRCR(w) in accordance with Appendix 4A to the value applicable to Trading Month n.

[balance of text not changed]

CONSULTATION

Any Rule Participant wishing to be consulted regarding this rule change is invited to notify the IMO within 5 Business Days of this notice being published.

The IMO prefers to receive notifications for consultation by email to **marketadmin@imowa.com.au**.

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

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