Independent Market Operator

Rule Change Notice
Title: Modification to over Capacity Credit Allocation Submission penalty

Ref: RC_2011_03

Standard Rule Change Process

Date: 15 March 2011

CONTENTS

DOCUMENT DETAILS

IMO Notice No.:	RC_2011_03
Report Title:	Rule Change Notice: Modification to over Capacity Credit Allocation Submission penalty
Release Status:	Public
Confidentiality Status:	Public domain

Published in accordance with Market Rule 2.5.7

Independent Market Operator
Level 3, Governor Stirling Tower
197 St George's Terrace, Perth WA 6000
PO Box 7096, Cloisters Square, Perth WA 6850
Tel. (08) 9254 4300
Fax. (08) 9254 4399
Email: imo@imowa.com.au
Website: www.imowa.com.au

1. THE RULE CHANGE PROPOSAL

1.1. The Submission

On 28 February 2011 Synergy submitted a Rule Change Proposal regarding amendments to clause 9.4.12 of the Wholesale Electricity Market Rules (Market Rules). On 8 March 2011 the IMO requested clarification from Synergy on the Rule Change Proposal, in accordance with clause 2.5.5 of the Market Rules. The IMO and Synergy met on 9 March 2011 to discuss the issues raised in the IMO's request for clarification.

This Rule Change Notice is published according to clause 2.5.7 of the Market Rules.

1.1.1 Submission details

Name:	Catherine Rousch
Phone:	6212 1125
Fax:	6212 1036
Email:	catherine.rousch@synergy.net.au
Organisation:	Synergy
Address:	228 Adelaide Terrace, Perth WA 6000
Date submitted:	28 February 2011
Urgency:	1-low
Change Proposal title:	Modification to over Capacity Credit Allocation Submission penalty
Market Rule affected:	9.4.12

1.2. Details of the Proposal

Background

In its Rule Change Proposal, Synergy notes that clause 9.4.12 of the Market Rules was intended by the market designers to prevent a Market Participant, for a Trading Month, from retaining more Capacity Credits than required for their Individual Reserve Capacity Requirement (IRCR) and thereby preventing others in the market from gaining these Capacity Credits.

The mechanism clause 9.4.12 uses to prevent such behaviour by Market Participants is to disregard all Capacity Credit Allocation Submissions to the Market Participant, forcing the Market Participant to repurchase their entire IRCR of Capacity Credits from the IMO.

Synergy asserts that while the ability for the IMO to prevent Capacity Credit Allocation Submissions exceeding a Market Participant's IRCR is critical, the existing approach of cancelling all Capacity Credits submitted by the offending Market Participant is excessive and unnecessary to either discourage the behaviour or penalise the offender.

Proposed Change

Synergy proposes that all the IMO needs to do to eliminate excess Capacity Credit Allocation Submissions is to remove from the offending Market Participant the excess quantity only.

For example, currently if a Market Participant has a monthly IRCR of 100 Capacity Credits, but was the recipient of Capacity Credit Allocation Submissions from Capacity Credit holders of 101 Capacity Credits, and through inadvertence or some other reason did not respond to the IMO's request to reduce the excess, then clause 9.4.12 would revoke the allocation of all 101 Capacity Credits, forcing the Market Participant to repurchase 100 from the IMO. Synergy's Rule Change Proposal would limit the revocation to a single Capacity Credit, leaving the Market Participant with 100 and allocating the remaining 1 back to the IMO for distribution.

Synergy's Reasons for the Proposed Change

Synergy notes that the market wants to avoid a Market Participant retaining more Capacity Credits than their IRCR. Synergy submits that the Rule Change Proposal achieves this result, but is an improvement on the existing arrangement as it does not excessively penalise the offending Market Participant. To explain this view, Synergy reuses the above example as follows.

If the Market Participant purchased the 101 Capacity Credits submitted to it from capacity holders at $10,000 per Capacity Credit, then this would deliver a cost to the Market Participant of $1,010,000. Synergy states that under the current arrangements, the IMO would revoke these Capacity Credits and so the Market Participant would be required to repurchase the required 100 at the prevailing market rate, say again $10,000/MW. Synergy claims that as a result the Market Participant would incur an additional cost of $1,000,000, and so would have paid a total of $2,010,000 to cover their IRCR, effectively incurring a penalty of $1,010,000. Synergy considers that this is clearly an enormous penalty for something that may have resulted from an administrative oversight.

Synergy submits that with the proposed change, the Market Participant would only have one Capacity Credit revoked. The Market Participant would still have paid their capacity holders $1,010,000 for capacity, with an overpayment or "penalty" of $10,000.

Synergy considers that the proposed change reduces the size of the penalty significantly, but corrects for the wrong Capacity Credit Allocation Submission whilst still, and more appropriately, penalising the offending Market Participant.

1.3. The Proposal and the Wholesale Market Objectives

Synergy considers that the proposal better achieves Market Objective (d), in that it potentially minimises the long-term cost of electricity by moderating application of excessive penalties.

1.4. The IMO's request for clarification on the Rule Change Proposal

On 8 March 2011 the IMO, in accordance with clause 2.5.5 of the Market Rules, sought clarification from Synergy on the Rule Change Proposal. The IMO considered that it was not clear from the proposed amendments how the IMO should choose which allocation(s) to revoke, in a situation where a Market Participant is allocated Capacity Credits, in excess of its IRCR, by several Market Participants. Using Synergy's example, if a Market Participant with an IRCR of 100 Capacity Credits is allocated 101 Capacity Credits, 50 from one Market Participant and 51 from another, the Rule Change Proposal does not explain which submission(s) should be partially revoked to reduce the total allocation to the Market Participant to 100 Capacity Credits.

The IMO met with Synergy on 9 March 2011 to discuss the IMO's request. Synergy suggested that the IMO could accept allocations for a Market Participant until its IRCR had been reached and then reject any further allocations received, and adopt a pro-rating approach if two submissions for a Market Participant were received at the same time. Synergy agreed that additional detail on the revocation process was required in the proposal.

2. PROPOSED AMENDING RULES

Synergy proposed the following amendments to the Market Rules (~~deleted text~~, <u>added text</u>):

9.4.12. If a Market Participant requested to nominate modifications in accordance with clause 9.4.10 does not comply with clause 9.4.11, ~~all~~ <u>the quantity of</u> Capacity Credit Allocation Submissions <u>exceeding the Market Participant's Individual Reserve Capacity Requirement</u>, insofar as they allocate Capacity Credits to that Market Participant, will be revoked and will be disregarded by the IMO.

3. WHETHER THE PROPOSAL WILL BE PROGRESSED FURTHER

The IMO has decided not to proceed with this Rule Change Proposal.

The reason for this decision is to allow Synergy to include additional information on the process and proposed Amending Rules for revoking submissions in the Rule Change Proposal.

The IMO has discussed this decision with Synergy, who proposes to submit a revised proposal at a future time.

5. ABOUT RULE CHANGE PROPOSALS

Any person (including the IMO) may make a Rule Change Proposal by completing a Rule Change Proposal Form and submitting this to the IMO (Clause 2.5.1 of the Market Rules).

The IMO will assess the proposal and, within 5 Business Days of receiving the proposal form, will notify the proponent whether the 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 market objectives 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 Rule Change Process or a Fast Track Rule Change 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.