

The background of the lower half of the page is a photograph of a wind farm and power lines, overlaid with a semi-transparent blue filter. On the left, several white wind turbines are visible, their towers and nacelles extending into the sky. On the right, a tall, lattice-structured power transmission tower stands prominently. The overall scene is set in a hilly, open landscape under a clear sky.

Independent Market Operator

Draft Rule Change Report Title: Removal of DDAP Uplift when less than facility minimum generation

RC_2010_08

Standard Rule Change Process

Date: 19 April 2012

CONTENTS

1. RULE CHANGE PROCESS AND TIMETABLE	4
2. CALL FOR SECOND ROUND SUBMISSIONS	4
3. PROPOSED AMENDMENTS	4
3.1 The Rule Change Proposal	4
3.2 The IMO's Initial Assessment of the Proposal	5
4. CONSULTATION	5
4.1 The Market Advisory Committee	5
4.2 Submissions received during the first submission period	6
4.3 The IMO's response to submissions received during the first submission period	6
4.4 Public Forums and Workshops	6
5. THE IMO'S ASSESSMENT	7
5.1 The IMO's assessment of the impacts of the proposed changes and their interaction with other Rule Change Proposals	7
5.2 Wholesale Market Objectives	7
6. THE IMO'S PROPOSED DECISION	8
6.1 Reasons for the decision	8
APPENDIX 1: SUBMISSIONS RECEIVED DURING THE FIRST SUBMISSION PERIOD.....	9

Document Details:

IMO Notice no.: RC_2010_08
Report Title: Removal of DDAP Uplift when less than Facility MinGen
Release Status: Public
Confidentiality Status: Public domain
Published in accordance with Market Rule 2.7.6

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
Email: imo@imowa.com.au
Website: www.imowa.com.au

EXECUTIVE SUMMARY

Proposed Amendments

The Rule Change Proposal seeks to remove the application of Downward Deviation Administered Price (DDAP) in instances where a Scheduled Generator deviates downwards from its Resource Plan in real time as a result of ramping up (or down) so that the output of that Facility was less than registered minimum generation (as provided in Facility registration data) or the Facility had experienced a complete Forced Outage.

Consultation

The Market Advisory Committee (MAC) discussed the Rule Change Proposal at its 10 March 2010 meeting. Given the work underway by the Market Rules Working Group (Oates Review) to consider a number of much bigger issues, the MAC did not support the Rule Change Proposal being put into the formal process.

Griffin Energy submitted the Rule Change Proposal on 19 April 2010. The first submission period was from 20 April 2010 to 1 June 2010. Submissions were received from Alinta, Landfill Gas & Power, Perth Energy, Synergy, System Management and Verve Energy.

The IMO's Proposed Decision

The IMO's proposed decision is to reject the Rule Change Proposal given the Amending Rules from the Rule Change Proposal: Competitive Balancing and Load Following Market (RC_2011_10), which are scheduled to commence on 1 July 2012, have removed the concept of DDAP in its entirety.

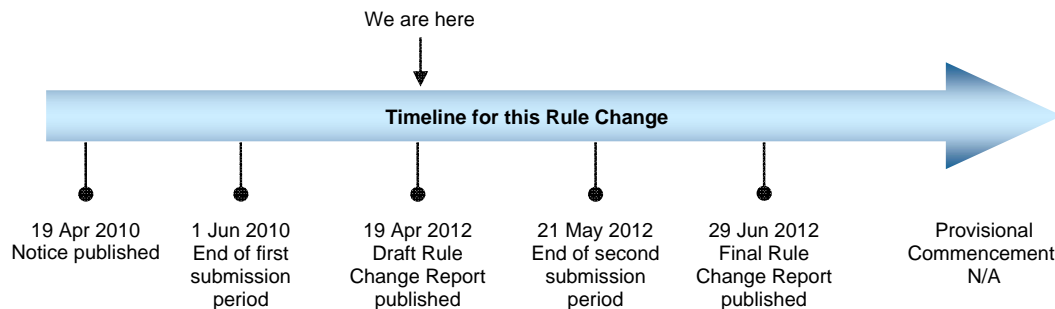
Next steps

The IMO now invites interested stakeholders to make submissions on this Draft Rule Change Report by **5.00pm, Monday 21 May 2012.**

1. RULE CHANGE PROCESS AND TIMETABLE

On 15 April 2010, Griffin Power submitted a Rule Change Proposal regarding amendments to clause 6.17.4 of the Wholesale Electricity Market Rules (Market Rules).

This proposal is being progressed using the Standard Rule Change Process, described in section 2.7 of the Market Rules. In accordance with clause 2.5.10 of the Market Rules, the IMO decided to extend the timeframe for the preparation of the Draft Rule Change Report. Further details of the extensions are available on the IMO website. The key dates in processing this Rule Change Proposal as amended in the extension notices are:



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, Monday 21 May 2012**.

The IMO prefers to receive submissions by email (using the submission form available on the IMO website: <http://www.imowa.com.au/rule-changes>) to: market.development@imowa.com.au

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

Independent Market Operator

Attn: Group Manager, Market Development
PO Box 7096
Cloisters Square, PERTH, WA 6850
Fax: (08) 9254 4399

3. PROPOSED AMENDMENTS

3.1 The Rule Change Proposal

In its Rule Change Proposal, Griffin Energy noted that the Market Rules allow for the Downward Deviation Administered Price (DDAP) to be applied uniformly to all instances where a Scheduled Generator deviated downwards from its Resource Plan in real time¹. Griffin Energy noted that a Facility will only be operating below its registered minimum generation under a Resource Plan when ramping up to a level above the minimum, ramping down to zero, or when under a Forced Outage affecting its entire capacity. Imposing DDAP in instances where a

¹ The Rule Change Proposal refers to the Market Rules prevailing at that time. Several clauses of the Market Rules have subsequently been amended to reflect the changes resulting from the Market Evolution Plan

facility is ramping up (or down) according to a Resource Plan, in the intervals when the Resource Plan is less than the facility's registered minimum generation, imposes an additional cost on the Scheduled Generator above the Marginal Cost Administered Price (MCAP) levied on the difference between the Resource Plan and the actual generation. In other words, the DDAP penalty is an attempt to incentivise an outcome which the generator is unlikely to be able to control. Likewise, Griffin Energy considered that the application of DDAP when a facility is on a complete Forced Outage imposes an additional superfluous cost above MCAP as well as the cost of capacity refunds.

Griffin Energy proposed to remove the application of DDAP in instances where a Facility:

- was ramping up (or down) according to a Resource Plan and the output of that Facility was less than registered minimum generation (as provided in Facility registration data); or
- had experienced a complete Forced Outage.

Griffin Energy considered that the removal of DDAP below minimum generation would be consistent with the acknowledgement of facility limitations under Facility Registration Standing Data and would remove an inefficient cost (or wealth transfer) in the market.

For full details of the Rule Change Proposal please refer to the IMO Website: http://www.imowa.com.au/RC_2010_08

3.2 The IMO's Initial Assessment of the Proposal

The IMO decided to proceed with the proposal on the basis that its preliminary assessment indicated that the proposal is consistent with the Wholesale Market Objectives.

4. CONSULTATION

4.1 The Market Advisory Committee

A pre-Rule Change Proposal was presented at the Market Advisory Committee (MAC) meeting held on 10 March 2010. During the meeting the following points were raised:

- Perth Energy queried whether changing the tolerance applied to deviations below minimum generation would also solve this issue. System Management noted that it is unlikely that a Market Generator would operate in the range below minimum generation for a prolonged period. NewGen noted its support for the proposal and queried the continued need for DDAP in the market.
- The IMO queried if Market Participants would not nominate a higher value for minimum generation should this Rule Change Proposal progress to remove their exposure to refunds. Griffin Energy noted that minimum generation is a technical parameter provided during registration and would require auditing. The IMO queried why if a facility is unreliable below minimum generation they should not be required to make Capacity Credit repayments for this energy.
- System Management noted that because of the incentives currently created by the Market Rules it is often only requested to bring plant back into operation during off peak periods so Market Generators can avoid DDAP payments. The IMO noted that Market Generators should also have incentives to bring plant back on earlier to meet Reserve Capacity Obligations.
- Verve Energy noted that for some facilities it may take a few hours to be operating above minimum generation when coming back into operation from a Planned Outage. Additionally, NewGen noted the larger issue associated with System Management's new

requirements, introduced under the Procedure Change Proposal: Dispatch (PPCL0014), that Market Participants use reasonable endeavours not to exceed a 6MW per minute average rate when ramping a Scheduled Generator. NewGen noted that its facilities would operate to ramp up as quickly as possible to avoid paying DDAP.

- The IMO noted that these are much bigger issues which are being considered by the Oates Review implementation team when considering the options to implement the outcomes of the Oates Review. Additionally, the IMO noted that without rigour around the Standing Data for minimum generation of a facility there would be potential for Market Participants to game the market.

The MAC agreed that the Market Rules Design Team should review this issue further and therefore did not support a Rule Change Proposal being put into the process.

Further details are available in the MAC meeting minutes available on the IMO website: <http://www.imowa.com.au/MAC>

4.2 Submissions received during the first submission period

The first submission period for this Rule Change Proposal was between 20 April 2010 and 1 June 2010. The IMO received submissions from Alinta, Landfill Gas & Power (LGP), Perth Energy, Synergy, System Management and Verve Energy.

In summary, LGP, Perth Energy and Synergy supported the proposal. Both Alinta and System Management supported the intent of the proposal but noted that further refinements were required to the Amending Rules. In particular, System Management submitted that the IMO needed to fully consider system security implications of the proposed amendments due to the issues raised in its submission. Verve Energy did not indicate its support for the proposal. Verve Energy noted that there was little data to show the significance of uncontrollable deviations and suggested that IMO make an assessment of such variations.

Alinta and Verve Energy identified that the Amending Rules require further modification to ensure that the deviation would be captured as an authorised deviation (clause 6.15.1 and 6.15.2) and that DDAP would apply above minimum generation. Both Perth Energy and System Management noted the need to develop a mechanism to require proposed minimum generation values for each facility to be independently verified.

A copy of all submissions in full received during the first submission period is available on the following IMO Web Page: http://www.imowa.com.au/RC_2010_08

4.3 The IMO's response to submissions received during the first submission period

The IMO's response to each of the issues identified during the first submission period is presented in Appendix 1 of this report.

Overall, the IMO notes that the Amending Rules resulting from the Rule Change Proposal: Competitive Balancing and Load Following Market (RC_2011_10) which are scheduled to commence on 1 July 2012, have removed the concept of both DDAP and UDAP in their entirety. The proposed amendments are therefore no longer required to correct the issue identified by Griffin Energy.

4.4 Public Forums and Workshops

No public forums or workshops were held in relation to this Rule Change Proposal.

5. THE IMO'S ASSESSMENT

In preparing its Draft Rule Change Report, the IMO must assess the Rule Change Proposal in light of clauses 2.4.2 and 2.4.3 of the Market Rules.

Clause 2.4.2 outlines that the IMO *“must not make Amending Rules unless it is satisfied that the Market Rules, as proposed to be amended or replaced, are consistent with the Wholesale Market Objectives”*.

Additionally, clause 2.4.3 states, when deciding whether to make Amending Rules, the IMO must have regard to the following:

- any applicable policy direction from the Minister regarding the development of the market;
- the practicality and cost of implementing the proposal;
- the views expressed in submissions and by the MAC; and
- any technical studies that the IMO considers necessary to assist in assessing the Rule Change Proposal.

The IMO notes that there has not been any applicable policy direction from the Minister.

A summary of the views expressed in submissions and by the MAC is available in section 4 of this report.

5.1 The IMO's assessment of the impacts of the proposed changes and their interaction with other Rule Change Proposals

During the first submission period the IMO conducted a comprehensive review of the proposed changes to evaluate costs and benefits to the market. The assessment identified that, while there would be financial benefits to Independent Power Producers associated with the changes, these were likely to be negated by the costs of implementation of the Amending Rules when spread over a two year period.

On the basis of these findings and given that the Rules Development Implementation Working Group was undertaking a thorough review of UDAP and DDAP in the market (as agreed at the August 2010 MAC meeting), the IMO, in conjunction with Griffin Energy, determined it was appropriate to delay the timeline for preparing the Draft Rule Change Report until a decision on the changes proposed under RC_2011_10 to remove UDAP and DDAP had been made.

The IMO notes that the Ministers approval of the proposed Amending Rules resulting from RC_2011_10 was provided on 23 March 2012. The Amending Rules are scheduled to commence on 1 July 2012 and will remove the issue identified by Griffin Energy that RC_2010_08 seeks to correct.

5.2 Wholesale Market Objectives

The IMO notes that in light of the Amending Rules resulting from RC_2011_10 that will remove the concepts of DDAP and UDAP in their entirety, the proposed amendments will no longer be required to address the issues identified originally by Griffin Energy. The IMO considers that the proposed amendments would have no impact on the Wholesale Market Objectives from 1 July 2012 when the Amending Rules from RC_2011_10 commence.

6. THE IMO'S PROPOSED DECISION

The IMO's proposed decision is to reject the Rule Change Proposal.

6.1 Reasons for the decision

The IMO has made its proposed decision on the basis that the Amending Rules resulting from RC_2011_10 have removed the concept of both DDAP and UDAP in their entirety. The proposed amendments are therefore no longer required to correct the issue identified by Griffin Energy.

APPENDIX 1: SUBMISSIONS RECEIVED DURING THE FIRST SUBMISSION PERIOD

	Clause	Submitter	Comment/Change requested	IMO Response
1	6.17.4	Alinta	The proposed amendments would mean there will be no downward payment (authorised or unauthorised)	The IMO notes that the Amending Rules resulting from RC_2011_10, which are scheduled to commence on 1 July 2012, have removed the concept of both DDAP and UDAP in their entirety. The proposed amendments are therefore no longer required to correct the issue identified by Griffin Energy.
2	6.17.3 & 6.17.4	Alinta	Removal of "other than those to which clauses 3.21A.14 or 4.25.10 apply.."	Refer to the response provided to Issue 1.
3	6.17.4	Verve Energy	Proposed amendments could result in a Market Generator not having to pay for its under production beyond the Facility Dispatch Tolerance. Verve Energy seeks clarification that this is the intent of the proposal.	Refer to the response provided to Issue 1.
4	6.15.1 & 6.15.2	Alinta	To ensure there will still be payments made for downward deviations, amendments to clauses 6.15.1 and 6.15.2 are required to ensure that deviations would be captured as an authorised deviation.	Refer to the response provided to Issue 1.
5	All	Verve Energy	The IMO should make an assessment of the significance of uncontrollable deviations arising from operation below stable generation. If deviations are not significant this issue should be considered by the Market Rules Design Team.	The IMO undertook a detailed assessment of the financial impacts of the proposed changes during the first submission period. High level details of the outcomes of the IMO's assessment are presented in section 5.1 of this report. The IMO notes that it is unable to provide further details of the assessment due to confidentiality restrictions. Refer also to the response provided to Issue 1.
6	All	Verve Energy	Independent Power Producers may incur a 30% premium on MCAP in a Forced Outage situation but the cost to supply at short notice under Balancing could be significantly higher than MCAP as a Open Cycle Gas Turbine could be required given the short notice.	Refer to the response provided to Issue 1.

	Clause	Submitter	Comment/Change requested	IMO Response
7	All	System Management	As “minimum generation capacity” is not a defined term within the Market Rules nor is it a term utilised in Appendix 1 Standing Data, this may result in ambiguity in its application. System Management suggests that defining the term ‘Minimum Generation Capacity (sent-out)’ may be required.	The IMO agrees that there is currently ambiguity around the definition and determination of minimum generation capacity for a facility and that there is no mechanism for verifying the values put forward by Market Participants. The IMO however notes that as financial impacts will not be related to the concept of minimum generation capacity, as would have been the case under the proposed changes put forward by Griffin Energy, there is at this point in time no need to put more rigour around the values for minimum generation capacity of Facilities. The IMO notes that this issue may need to be further considered at a later date and have included this into the Rule Change Log. Refer also to the response provided to Issue 1.
8	All	System Management	Encourages the development and adoption of a mechanism to require proposed minimum generation capacity values for each facility to be independently verified.	Refer to the response provided to Issue 7 above.
9	All	System Management	Incentives for Market Participants to increase their minimum generation values in Standing Data may result in operational inflexibility with dispatching generation. This may be detrimental to Power System Security.	Refer to the response provided to Issue 1 above.
10	All	System Management	The IMO should fully consider the system security implications of the proposal given the potential financial incentives for Market Participants to increase minimum generation values in Standing Data.	Refer to the response provided to Issue 1 above.
11	All	Perth Energy	Identify the need to clarify DDAP in the marketplace.	Refer to the response provided to Issue 1 above.
12	All	Perth Energy	Given that the market dispatch models are likely to be redesigned as part of the market reform process, Perth Energy believes that the broader relationship between Balancing and efficient unit commitment should be dealt with in the current reform process.	The IMO agrees and notes the work of the RDIWG and Market Rules Design Team in developing the new Balancing market which is scheduled to commence on 1 July 2012. Refer also to the response provided to Issue 1 above.

	Clause	Submitter	Comment/Change requested	IMO Response
13	All	Perth Energy	If the market recognises that generation Facility have limitations below their Minimum Stable Generation levels, then it should adopt pricing mechanisms that are consistent with these.	Refer to the response provided to Issue 1 above.
14	All	Perth Energy	Considers that some rigour should be applied to setting the Minimum Stable Generation values	Refer to the response provided to Issue 7 above.
15	All	Perth Energy	The minimum level of rigour would be achieved through the development of a simple Market Procedure for approving Minimum Stable Generation limits in Standing Data.	Refer to the response provided to Issue 7 above.