

The background of the lower half of the page is a blue-tinted photograph. On the left side, there are several large wind turbines with their blades extending outwards. On the right side, there are tall, lattice-structured power line towers with multiple cross-arms and insulators. The overall scene is set against a clear sky.

Independent Market Operator

Rule Change Notice

**Title: Removal of DDAP Uplift
when less than facility
min gen**

Ref: RC_2010_08

Standard Rule Change Process

Date: 30 July 2010

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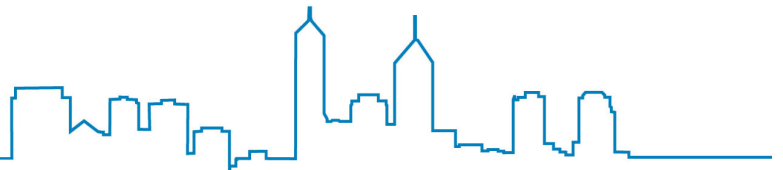
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1. THE RULE CHANGE PROPOSAL

1.1. The Submission

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

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

1.1.1 Submission details

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Address:	15th Floor, 28 The Esplanade, Perth, Western Australia 6000
Date submitted:	15 April 2010
Urgency:	2-medium
Change Proposal title:	Removal of DDAP uplift when less than facility min gen
Market Rule affected:	Clause 6.17

1.2. Details of the Proposal

Under the Market Rules the calculation of Downward Deviation Adjusted Price (DDAP) presently applies uniformly to all instances where a scheduled generator deviates downwards from its Resource Plan in real-time. DDAP is an Marginal Cost Administered Price (MCAP) multiplier applied to facilities that produce less than their scheduled Resource Plan. Its purpose is two-fold. Firstly, it incentivises scheduled generators to nominate achievable Resource Plans and to operate and maintain their facilities in a manner that will enable Resource Plans to be achieved. Secondly, it acts as a deterrent to Market Generators that might seek to deviate downwards from their Resource Plan in real time to take advantage of a potential situation where MCAP is lower than their marginal cost of production.

Facility registration data in WEMS acknowledges limitations of facilities, such as the minimum stable generation of a facility. Below the minimum stable generation, a facility cannot reliably produce output to a pre-determined schedule.

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 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 MCAP price 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. Applying DDAP to a facility that has



experienced a complete forced outage imposes an additional cost on the scheduled generator above the MCAP price as well as the cost of capacity refunds – which act as the specific market incentive to maintain available capacity. In other words, the DDAP penalty in this instance is superfluous.

While it is acknowledged that there is a potential for the MCAP price to be set marginally higher due to a scheduled generator’s downward deviation (if that downward deviation caused a marginally more expensive generator to set the MCAP price), this is a function of the inherent deficiencies in most generation technologies and will not be impacted by the application of a DDAP penalty to a downward deviation below the minimum stable generation (and it is unlikely a generator will purposely deviate downwards if the impact of doing so is to raise the price of MCAP – to which it will be exposed). It is also one of the reasons why settling positions in the balancing market is more risky than in the STEM.

The ramp-up profile in Figure 1 provides an example of how this rule would be applied during a downward deviation during ramp up and ramp down. Figure 2 provides an example of how it would be applied to forced outages:

Figure 1.

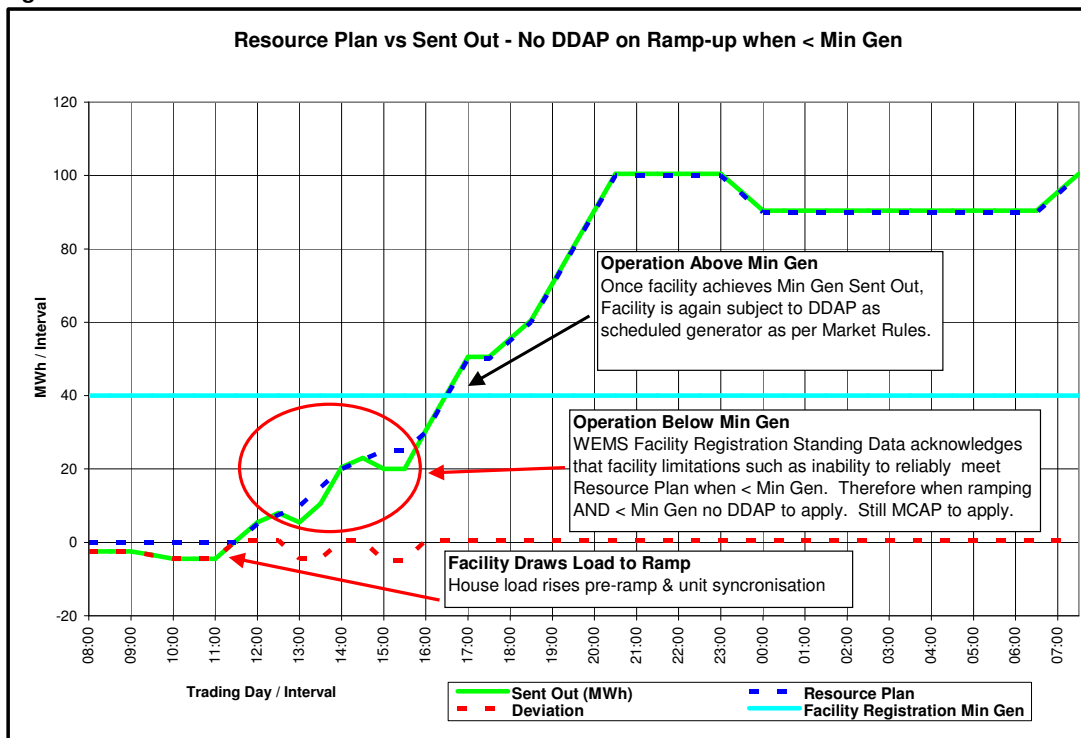
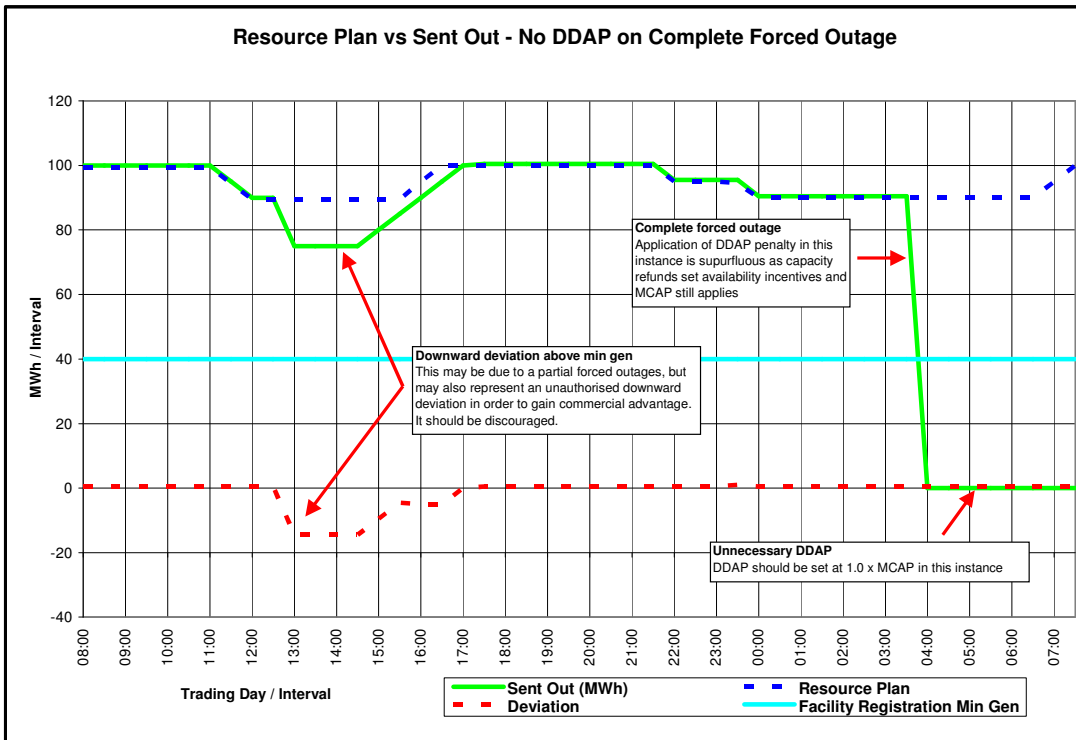


Figure 2.



1.3. The Proposal and the Wholesale Market Objectives

Griffin Energy submits that the proposed changes would allow the Market Rules to better address Wholesale Market Objectives (a), (c) and (d).

a) *to promote the economically efficient, safe and reliable production and supply of electricity and electricity related services in the South West interconnected system;*

Griffin Energy considers that a penalty levied to incentivise an action that cannot be properly controlled, or is accounted for by another mechanism in the market, provides little additional benefit to the market. The penalty is an inefficient cost (or wealth transfer).

c) *to avoid discrimination in the 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.*

Griffin Energy notes that certain types of generation facilities have limitations that are acknowledged in Facility Registration Standing Data, such as the minimum stable generation of a facility. This proposed rule change will mean that certain types of technologies are not discriminated against through penalties levied against these known limitations.

d) *to minimise the long-term cost of electricity supplied to customers from the South West interconnected system;*



By the removal of inefficient costs (or wealth transfers) in the market, Griffin Energy considers the long run benefit should be lower costs for electricity supply.

Griffin Energy considers that the proposed Amending Rules are consistent with the remaining Wholesale Market Objectives.

2. WHETHER THE PROPOSAL WILL BE PROGRESSED FURTHER

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

This Rule Change Proposal will be processed using the Standard Rule Change Process, described in section 2.7 of the Market Rules.

2.1 Extension of publishing the Draft Rule Change Report (14 June 2010)

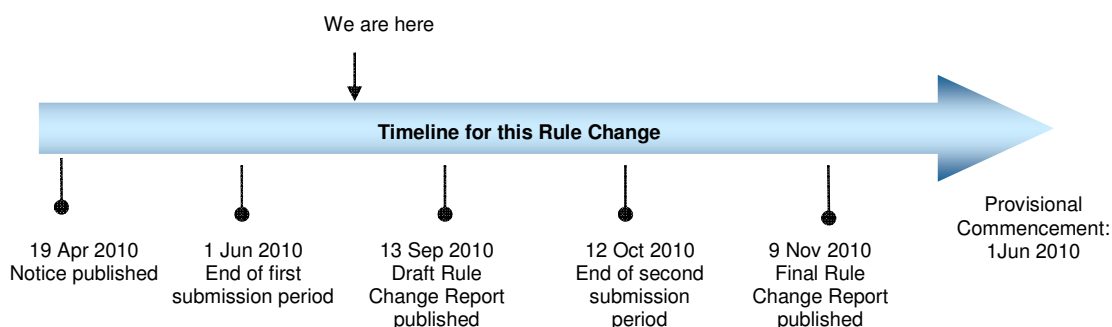
The IMO extended the timeframe for publication of the Draft Rule Change Report for this Rule Change Proposal until 30 July 2010. This extension was in accordance with clause 2.5.10 of the Market Rules. A notice of this extension was published under clause 2.5.12 on the IMO website on 14 June 2010, and notified to interested stakeholders in the IMO's RulesWatch volume 2 issue 24, published on 14 June 2010.

2.2 Extension of publishing the Draft Rule Change Report (30 July 2010)

The IMO extended the timeframe for publication of the Draft Rule Change Report for this Rule Change Proposal until 13 September 2010. This extension was in accordance with clause 2.5.10 of the Market Rules. A notice of this extension was published under clause 2.5.12 on the IMO website on 30 July 2010, and notified to interested stakeholders in the IMO's RulesWatch volume 2 issue 30, published on 2 August 2010.

Note that only section two of this Rule Change Notice has been updated with the revised timelines following the notice of extension. All other parts of this document remain unchanged from the original version published on 19 April 2010.

The projected timelines for processing this proposal are:



Please note that the Commencement Date is provisional and may be subject to change in both the Draft Rule Change Report and the Final Rule Change Report.

3. CALL FOR SUBMISSIONS

PLEASE NOTE: The IMO did not extend the first submission period, which has closed.

The IMO is seeking submissions regarding this proposal. The submission period is 30 Business Days from the publication date of this Rule Change Notice. Submissions must be delivered to the IMO by 5:00pm on **Tuesday, 1 June 2010**.

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

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

Independent Market Operator
Attn: Manager Market Development and System Capacity
PO Box 7096
Cloisters Square, Perth, WA 6850

Fax: (08) 9254 4399

4. PROPOSED AMENDING RULES

The IMO proposes the following amendments to the Market Rules (~~deleted text~~, added text):

6.17.4. The Downward Unauthorised Deviation Quantity, $DUDQ(p,d,t)$, for Market Participant p and Trading Interval t of Trading Day d equals the sum over all that Market Participant's Registered Facilities, for intervals where the Facility Dispatch Schedule of each Facility is above that Facility's registered minimum generation capacity, as recorded in Standing Data, other than those to which clauses 3.21A.14 or 4.25.10 apply, of the lesser of:

- (a) The quantity that is:
 - i. the Facility's Metered Schedule for Trading Interval t ; less
 - ii. the Facility's Dispatch Schedule for Trading Interval t ; and
- (b) Zero.

5. ABOUT RULE CHANGE PROPOSALS

Market Rule 2.5.1 of the Market Rules provides that any person (including the IMO) may make a Rule Change Proposal by completing a Rule Change Proposal Form and submit this to the IMO.

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.