



## **Procedure Development Report**

### **Title: Market Procedure for Determination of the Maximum Reserve Capacity Price**

Ref: PC\_2008\_06

Date: 10 October 2008

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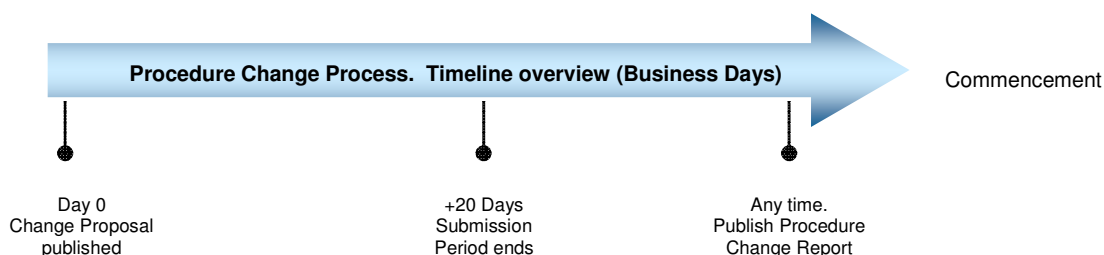
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## Independent Market Operator

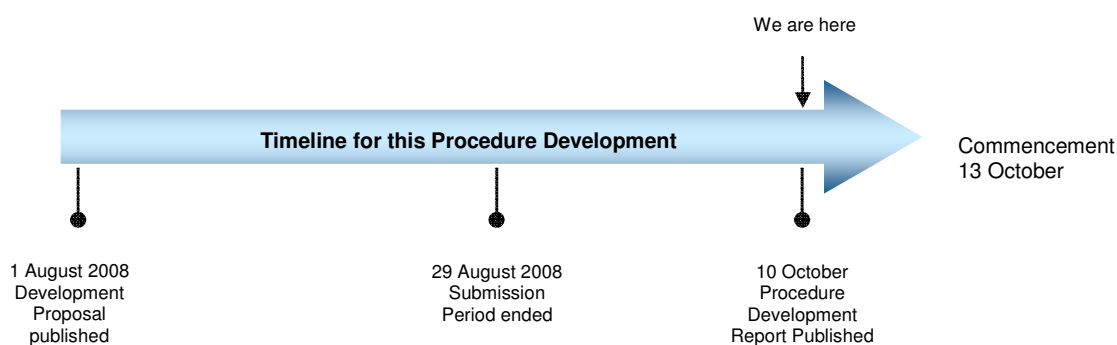
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## INTRODUCTION

On 1 August 2008, the IMO published a Procedure Development Proposal titled Market Procedure for Determination of Maximum Reserve Capacity Price. The proposal has been processed according to the Procedure Change Process under section 2.10 of the Wholesale Electricity Market Rules (Market Rules). This process adheres to the following timelines:



The key dates in processing this Procedure Development Proposal are:



This Procedure Development Report is published by the IMO in accordance with clause 2.10.12 of the Market Rules

## THE PROPOSED PROCEDURE

The new procedure for Determining the Maximum Reserve Capacity Price sets out the principles to be applied and steps to be taken by the IMO in order to develop and propose the Maximum Reserve Capacity Price as required under the Market Rules. Under the Market Rules, the Maximum Reserve Capacity Price is used as the price cap for the Reserve Capacity Auction in the event that one is held. It is also used as the basis of determining the price of uncontracted Capacity Credits in the case where the Reserve Capacity Auction is cancelled.

The procedure details the processes and mechanisms by which the IMO will determine the Maximum Reserve Capacity Price each year, and the major review of the methodology to be conducted at least every five years.

## THE WORDING OF THE PROPOSED PROCEDURE

The wording of the procedure, as proposed by the IMO, is available on the IMO's web site:

[http://www.imowa.com.au/Attachments/MarketProcedures/ProcedureChange\\_2008\\_06.htm](http://www.imowa.com.au/Attachments/MarketProcedures/ProcedureChange_2008_06.htm)

## SUBMISSIONS RECEIVED

The IMO received one submission, from Synergy, on the new procedure during the public submission period. The submission is summarised in the paragraph below, and a full text version is available on the IMO web site:

### ***Submission by Synergy:***

In its submission Synergy expressed its support for the Procedure Development Proposal. Synergy supports the goal of determining a MRCP that is representative of the actual capacity costs of building a peaking plant as this will facilitate market efficiency and reliability objectives.

## THE MARKET ADVISORY COMMITTEE

The proposed new procedure has been assessed by the IMO Market Procedure Development Group, a group of Industry Representatives set up by the Market Advisory Committee to assist the IMO in developing Market Procedures. The group met to discuss the proposed new procedure on 28 May 2008.

The working group, at the 28 May 2008 meeting, proposed changes in the Maximum Reserve Capacity Price Procedure to reflect the following amendments:

- A provision for Western Power Networks to provide deep connection costs associated with connection of the power plant to the transmission network, erroneously omitted from the previous version of the procedure;
- A minor addition to allow bond rates to be calculated where no bond market exists for the required 10 year term;
- A correction to the table outlining the parameters for the Weighted Average Cost of Capital in respect of the Debt to Assets Ratio and Debt to Equity Ratio, correcting a typographical error in the procedure and placing it in line with the report from the Allen Consulting Group; and
- Some minor typographical errors.

The IMO agreed with these amendments and has revised the Maximum Reserve Capacity Price Procedure accordingly.

The working group endorsed the draft procedure and agreed that it should be published for public consultation once the changes to the market rules providing for the procedure become effective.

## THE PROPOSAL AND THE WHOLESALE MARKET OBJECTIVES

The IMO considers that the new procedure will have the following impact on the market objectives:

Impact	Wholesale Market Objectives
Allow the Market Rules to better address objective	a
Consistent with objective	b, c, d and e
Inconsistent with objective	-

The IMO's assessment against market objective (a) is as follows:

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

The proposed new procedure will facilitate market efficiency and reliability. This will be accomplished by detailing the processes and mechanisms by which the IMO should determine the Maximum Reserve Capacity Price each year. The new procedure also makes provisions for a major review of the methodology to be conducted at least every five years.

## THE IMO'S DECISION

No party expressed any concerns regarding the proposed new Market Procedure for Determination of Maximum Reserve Capacity Price. The IMO therefore finds it appropriate to adopt the procedure as proposed in its Procedure Development Proposal.

The new procedure is published on the IMO's website, together with this Procedure Change Report.

## COMMENCEMENT

The procedure is of an administrative nature and will not require Rule Participants or the IMO to implement any procedural or system amendments before it can commence.

The Market Procedure for Determination of Maximum Capacity Reserve Prices will commence at 08.00am on 13 October 2008.

## GENERAL ABOUT PROCEDURES AND PROCEDURE CHANGES

Clause 2.9.3 of the Market Rules states that Market Procedures:

- (a) must be:
  - i. developed, amended or replaced in accordance with the process in the Market Rules;
  - ii. consistent with the Wholesale Market Objectives; and
  - iii. consistent with these Market Rules, the Electricity Industry Act and Regulations; and
- (b) may be amended or replaced in accordance with clause 2.10 of the Market Rules and must be amended or replaced in accordance with clause 2.10 where a change is required to maintain consistency with Amending Rules.

The IMO or System Management, as applicable, may initiate a Procedure Change Process by developing a Procedure Change Proposal. Rule Participants may notify the IMO or System Management, as applicable, where they consider an amendment or replacement of a Market Procedure would be appropriate.

If Amending Rules require the IMO or System Management to develop new Market Procedures or to amend or replace existing Market Procedures, then the IMO or System Management, as applicable, is responsible for the development of amendments to or replacement for Market Procedures so as to comply with the Amending Rules.