

Independent Market Operator



Final Market Rule Change Report

Title: STEM Notification of Plant Availability

Ref: RC_2007_21

Date: 19 November 2007

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1. INTRODUCTION

1.1. *General Information about Rule Changes*

Clause 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 submitting this to the Independent Market Operator (IMO).

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 electricity 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
- (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. Under the shorter Fast Track process the IMO consults with Rule Participants who either advise the IMO that they wish to be consulted or the IMO considers have an interest in the change.

1.2. *About this Rule Change*

On 15 October 2007, Verve Energy submitted a Rule Change Proposal titled “STEM Notification of Plant Availability”.

The Proposal was processed using the Fast Track Rule Change Process, described in section 2.6 of the Wholesale Electricity Market Rules. The Fast Track Process was used as the proposal satisfied the requirements of clause 2.5.9 (b) of the Market Rules.

The Fast Track Process adheres to the following timelines, outlined in section 2.6 of the Market Rules:

- Within 5 Business Days of a Rule Change Notice being published, the IMO must notify any Rule Participants that the IMO intends to consult regarding the Rule Change.
- Within 5 Business Days of the Rule Change Notice being published, any Rule

Participant wishing to be consulted may contact the IMO to request consultation on the Rule Change.

- Within 15 Business Days of the Rule Change Notice being published, all consultations must be concluded.
- Within 20 Business Days of the Rule Change Notice being published, the IMO must publish a Final Rule Change Report.

The key dates in processing this Rule Change Proposal were:

- The Rule Change Notice for this Proposal was published on the IMO website on 22 October 2007.
- On 23 October 2007, the IMO notified interested parties that it wished to consult regarding the Rule Change.
- Consultations on the Rule Change Proposal were completed on 12 November 2007.
- This Final Rule Change Report was published on 19 November 2007.

This Final Rule Change Report on the Rule Change Proposal has been prepared by the IMO in accordance with clause 2.6.4 of the Market Rules.

Based on its analysis against the Market Objectives and the responses received from interested parties, the IMO's decision is to accept the Rule Change in the form outlined in this Final Report.

The amendments to clause 4.12.6 of the Wholesale Electricity Market Rules will commence at 08.00am on 1 December 2007.

2. THE RULE CHANGE PROPOSAL

2.1. The Submission

Verve Energy submitted, on 15 October 2007, a Rule Change Proposal to amend the Market Rules to clarify that the outage data used by the IMO for settlement purposes should reflect the Planned Outage position provided to the IMO by System Management before a STEM Submission is made.

2.1.1. Submission details

Name:	Andrew Everett
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Organisation:	Verve Energy
Address:	Level 11, Australia Place, 15-17 William St, Perth, WA, 6000
Date Submitted:	15/10/2007
Urgency:	High

2.2. The Proposal

Verve Energy submitted that clause 7.13.1A of the Market Rules reads:

'System Management must provide the IMO with the following data for a Trading Day by noon on the fifteenth Business Day following the day on which the Trading Day ends:

- (a) *the MWh quantity of non-compliance by the Electricity Generation Corporation by Trading Interval;*
- (b) *the schedule of all Planned Outages, Forced Outages and Consequential Outages relating to each Trading Interval in the Trading Day by Market Participant and Facility'*

In its proposal, Verve Energy noted that this Planned Outage, Forced Outage and Consequential Outage data reflects the position after a STEM Submission has been made.

It also noted that System Management also provides a schedule of all outages before STEM submissions for a Trading Day are made.

Verve Energy submitted that where a Market Participant has a facility that, at the time of the STEM Submission, is undergoing a Planned Outage the Market Participant is not able to bid that capacity into the STEM. However, this facility may subsequently become available before the scheduled end of the Planned Outage and System Management's Planned Outage schedule will be updated to reflect this.

Verve Energy argued that, at present, the Planned Outage details that System Management provides to the IMO for settlement purposes reflect the facility's position after the STEM Submission and the above situation would, under Market Rule 4.26.2, result in a calculated shortfall in the STEM Submission and a subsequent Reserve Capacity Refund.

In order to avoid these refunds, Verve Energy proposed that the data used by the IMO for settlement purposes should reflect the Planned Outage position provided to the IMO by System Management before the STEM Submission in order to correctly calculate any shortfall at the time of the STEM Submission.

2.3. The Proposal and the Market Objectives

Verve Energy submits that the proposed Rule Change supports the following Market Objective:

- (d) *to minimise the long-term cost of electricity supplied to customers from the South West Interconnected System;*

Verve Energy considers that adoption of the proposed Rule Change will prevent generators from being incorrectly charged capacity refunds when they have been able to bring facilities back from planned outages earlier than anticipated.

2.4. Amending Rules Proposed by Verve Energy

The amendments proposed by Verve Energy can be found in Section 5 of this Report.

2.5. The IMO's Initial Assessment of the Proposal

The IMO decided to proceed with the Rule Change Proposal on the basis of its preliminary assessment which indicated that the Proposal was consistent with the Market Objectives.

The proposal was processed using the Fast Track Rule Change process described in section 2.6 of the Wholesale Electricity Market Rules. The Fast Track Process was used as the proposal satisfied the requirements of clause 2.5.9 (b) of the Market Rules. The change was considered to be a manifest error that should be corrected in a timely manner to avoid further unintended financial consequences for the affected Participants.

Section 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.*

3. RULE PARTICIPANTS CONSULTED

For this Rule Change, the IMO notified the following interested parties of its intention to consult:

- Alcoa World Alumina Australia
- Alinta Sales Pty Ltd
- Barrick (Kanowna) Limited
- Bioenergy Limited
- Economic Regulation Authority
- Eneabba Gas Pty Ltd
- Griffin Energy
- Karara Energy
- Landfill Gas and Power Pty Ltd
- Mount Herron Engineering
- NewGen Neerabup Pty Ltd
- NewGen Power Kwinana Pty Ltd
- Newmont Asia Pacific
- Office of Energy
- Perth Energy Pty Ltd
- Premier Power Sales Pty Ltd
- Skyfarming Pty Ltd
- Synergy
- System Management
- TransAlta Energy
- Verve Energy
- Wambo Power Ventures
- Waste Gas Resources Pty Ltd
- Water Corporation
- Western Australia Biomass Pty Ltd (Babcock and Brown)
- Western Power Corporation

In addition to IMO's notification, an invitation for interested parties to contact the IMO, should they wish to be consulted on this Rule Change, was published on the IMO website on 22 October 2007.

The IMO requested the interested parties to provide their views on the Rule Change in writing.

The IMO received responses from Alinta Sales, and Landfill Gas and Power. Below is a summary of the received feedback.

3.1. Market Advisory Committee

The Market Advisory Committee (MAC) was invited to have preliminary discussions on the Proposal at its meeting on 10 October 2007, before it was formally submitted by Verve Energy.

MAC expressed general support of the intention of the change proposal, that generators returning early from a planned outage should not incur reserve capacity refunds.

3.2. *Alinta Sales*

Alinta submitted that Verve Energy has highlighted a deficiency in the Market Rules where participants currently may be liable for capacity credit refunds as a consequence of bringing plant back early from an outage. Alinta expressed its support for Verve Energy's change proposal to ensure that plant that is brought online early from an outage is not penalised by having to make capacity credit refunds. Alinta believes the change will improve the achievement of Market Objectives (a), (b) and (d) of the Market Rules.

3.3. *Landfill Gas and Power*

Landfill Gas and Power (LGP) expressed its support for the proposed change. LGP agreed that the proposal seeks to correct a manifest error that generators returning early from a Planned Outage are inadvertently subjected to reserve capacity refunds.

4. THE IMO'S ASSESSMENT AND DECISION

4.1. Assessment

4.1.1. Consultations

All parties responding to IMO's request for consultation expressed support for Verve Energy's proposal. No party expressed any concerns or proposed any changes to the amendments to the Market Rules proposed by Verve Energy.

4.1.2. The IMO's Assessment

According to clauses 2.4.2 of the Market Rules *"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"*.

The IMO' assessment against each of the Market Objectives 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

Assessment: The removal of the current penalty generators face will encourage the early return of plant from planned outages. This will contribute to promoting the reliable supply of electricity in the SWIS.

The IMO considers that the proposed change supports the achievement of objective (a) of the Market Objectives. In its submission, Alinta supported this assessment.

(b) to encourage competition among generators and retailers in the South West interconnected system, including by facilitating efficient entry of new competitors

Assessment: Returning plant from Planned Outages as early as practicable will enhance competition in the Market. The IMO considers that the proposed change therefore supports the achievement of objective (b) of the Market Objectives. In its submission, Alinta supported this assessment.

(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

Assessment: The IMO considers that the proposed changes do not impact on, and therefore are consistent with, the operation of objective (c) of the Market Objectives.

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

Assessment: The proposed changes will remove a current deficiency in the Market Rules which leads to the imposition of refunds on generators that return early from a planned outage. This will minimise the cost incurred by affected generators and thus the costs that are passed through to customers.

The IMO considers that the proposed changes are consistent with objective (d) of the Market Objectives. Alinta supported this assessment in its submission.

(e) to encourage the taking of measures to manage the amount of electricity used and when it is used

Assessment: The IMO considers that the proposed changes do not impact on, and therefore are consistent with, the operation of objective (e) of the Market Objectives.

In accordance with Clause 2.4.3(b) of the Market Rules, in deciding whether or not to make Amending Rules, the IMO must also have regard to the practicality and cost of implementing the Amending Rules.

The implementation of this change will require changes to the Wholesale Electricity Market System operated by the IMO. The cost of implementing these changes has been estimated at around \$18,000.

The IMO has found this cost to be acceptable and considers that the benefits the change will bring to the market and electricity consumers will outweigh the cost. No other costs have been identified in relation to this change during the consultation process.

4.2. The IMO's Decision

The IMO's decision is to:

- Accept Verve Energy's proposed amendments to clause 4.12.6 of the Wholesale Electricity Market Rules.

The IMO has made its decision on the basis that the resulting Amending Rules are consistent with the Market Objectives.

The wording of the relevant Amending Rules is presented in Section 5 of this Report.

4.3. Amending Rules Commencement

The amendments to clause 4.12.6 of the Wholesale Electricity Market Rules will commence at 08.00am on 1 December 2007.

5. AMENDING RULES

The following clause is amended as follows (~~deleted wording~~, new wording):

Clause 4.12.6

4.12.6. Subject to clause 4.12.7, any initial Reserve Capacity Obligation Quantity set in accordance with clauses 4.12.4, 4.12.5, or 4.28B.4 is to be reduced once the Reserve Capacity Obligations take effect, as follows:

- (a) if the aggregate MW equivalent to the quantity of Capacity Credits (as modified from time to time under the Market Rules) for a Facility is less than the Certified Reserve Capacity for that Facility at any time (for example as a result of the application of clause 4.20.1, clause 4.25.4 or clause 4.25.6), then the IMO must reduce the Reserve Capacity Obligation Quantity to reflect the amount by which the aggregate Capacity Credits fall short of the Certified Reserve Capacity;
- (b) subject to clause 4.27.9, during Trading Intervals where there is a Consequential Outage or a Planned Outage for a Facility ~~approved provided to the IMO by System Management in accordance with clause 7.3.4 or a Consequential Outage~~, the IMO must reduce the Reserve Capacity Obligation Quantity for that Facility, after taking into account any adjustments in accordance with paragraph (a), to reflect the amount of capacity unavailable due to that outage;