

Independent Market Operator



Final Market Rule Change Report

Title: Network Control Procurement Requirements

Ref: RC_2007_22

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, Western Power submitted a Rule Change Proposal titled “Network Control Procurement Requirements”.

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 (c) 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 section 5 of this Final Report.

The amendments to clauses 5.2.1 and 5.2.2 of the Wholesale Electricity Market Rules will commence at 08.00am on 1 December 2007.

2. THE RULE CHANGE PROPOSAL

2.1. The Submission

Western Power submitted, on 15 October 2007, a Rule Change Proposal regarding amendments to clauses 5.2.1 and 5.2.2 of the Wholesale Electricity Market Rules.

2.1.1. Submission details

Name: Peter Mattner
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Organisation: Western Power
Date submitted: 15 October 2007
Urgency: High – Fast Track

2.2. The Proposal

Western Power submitted that currently the Market Rules require all Network Control Service Contracts to have a minimum period of ten years. Western Power's is concerned that while this minimum period appears to be appropriate for contracts for medium- to large-scale generation, it may not always be appropriate for smaller-scale solutions.

Western Power submitted that the optimum solution for a network constraint, which minimises the overall cost, may involve a Network Control Service Contract for a relatively small amount of generation for a relatively short period followed by a network augmentation in the medium term. Western Power, therefore, proposed to allow the Network Operator to determine the minimum period over which the services would be required.

Western Power submitted that the steady growth in electricity demand in and around the town of Ravensthorpe meant that capacity in the existing network will be fully utilized within 1 to 2 years. The optimum development appeared to be establishing relatively small-scale local generation immediately, followed by a major network augmentation around 2012 (depending on actual load growth).

In order to establish a contract for a Network Control Service and allow sufficient time for the construction of either new generation or network enhancements, tenders would have to be issued without delay.

Therefore, Western Power requested that this Rule Change Proposal be processed using the Fast Track Rule Change Process, described in section 2.6 of the Market Rules.

The amendments to the Market Rules that were proposed by Western Power are set out in section 5 of this Notice.

2.3. The Proposal and the Market Objectives

Western Power submitted that the proposed Rule Change will better address the following Market Objectives:

- (a) to promote the economically efficient, safe and reliable production and supply of electricity and electricity related services in the South West interconnected system; and
- (d) to minimise the long-term cost of electricity supplied to customers from the South West interconnected system;

for the following reason:

The change is designed to facilitate the maximum overall net cost/benefit in the case of Network Control Service Contracts by allowing the flexibility to optimize the term of the services and timing of the new network investment.

2.4. Amending Rules Proposed by Western Power

The amendments proposed by Western Power are set out below:

- 5.2.1. Where required by the Access Code to submit a major augmentation, as defined in the Access Code, to the tender process set out in the Market Rules, a Network Operator must notify the IMO of the opportunity for network support generation or Demand Side Management to compete with a transmission or distribution upgrade. The notification must include:
- (a) a specification of the services that would be required from the facility, including:
 - i. the maximum active and reactive power quantities required, specified in MW and MVar;
 - ii. the estimated number of hours per year that the services would be required; and
 - iii. the required period of notice to call upon the services;
 - (b) the location at which the facility would need to connect to the relevant network;
 - (c) the Network Operator's estimate of the costs involved in connecting a generation facility that could provide the services specified in (a) from the location specified in (b);
 - (d) the date time by which the facility is required to be in service; ~~and~~
 - (e) the Network Operator's estimate of the cost of an augmentation to the Network that would provide the services- ; and
 - (f) the minimum period over which the services would be required, from the date specified in (d).

- 5.2.2. The minimum period over which the Network Control Service is required is the period specified under clause 5.2.1(f), ~~ten years from the date specified clause 5.2.1(d)~~. The IMO may extend the length of the contracted period.

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 (c) of the Market Rules. The change was considered to be urgently required and to be essential for the safe, effective and reliable operation of the market and the SWIS.

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 Pty Ltd
- Landfill Gas and Power Pty Ltd
- Mount Herron Engineering
- NewGen Power Kwinana Pty Ltd
- NewGen Neerabup Pty Ltd
- Newmont Australia Ltd.
- Office of Energy
- Perth Energy Pty Ltd
- Premier Power Sales Pty Ltd
- Skyfarming Pty Ltd
- Synergy Energy
- 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

On 23 October 2007 the IMO invited these interested parties to indicate their interest to participate in consultations on the Proposal. The IMO indicated that it would hold consultations with interested parties between 23 October and 12 November 2007.

In addition, 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 together with the Rule Change Proposal Notice.

The IMO received written responses from Alinta Sales Pty Ltd, Landfill Gas and Power, and Synergy Energy.

Below is a summary of the submissions received. The full text of the submissions is available from the IMO website.

3.1. Market Advisory Committee

The Market Advisory Committee (MAC) was invited to review the Proposal at its meeting on 10 October 2007.

MAC endorsed the intent of the rule change and expressed its support of the change, suggesting that the word 'time' in clause 5.2.1(d) be changed to 'date'.

3.2. Alinta Sales Pty Ltd

Alinta's submission acknowledged that the current requirement in the market rules for network control service contracts to be for periods of 10 years was a barrier to signing up network control service contracts that may be useful in optimising investment in the network. Alinta agreed that efficient network augmentation should be put in place wherever possible and supported the removal of the current barrier in the market rules. Alinta believed the change would improve the achievement of market objectives (a), (b) and (d).

3.3. Landfill Gas and Power

Landfill Gas and Power (LGP) expressed conditional support for this Rule Change proposal. LGP accepted Western Power's contention that the Ravensthorpe issue had to be resolved quickly for optimal tendering and that the optimal solution in this case was short term generation in conjunction with medium term network augmentation. However, LGP submitted that removal of the 10 year minimum would in general diminish the ability to finance suitable generation alternatives, and would thereby undermine the intent of the original rule. LGP accepted that Western Power should be given a venue for proposing a shorter period but submitted that, due to the conflict of interest, there should be no automatic right for Western Power to impose a shorter period without independent oversight.

4. THE IMO'S ASSESSMENT AND DECISION

4.1. Assessment

4.1.1. IMO Response to Submissions

LGP expressed concern about the lack of independent oversight of the Network Operator in fixing the minimum period for which Network Control Services would be required. The IMO notes that despite the fact that under the proposed amendment to the Market Rules the Network Operator will specify that minimum period, Market Rule clause 5.2.2 provides that the IMO has the discretion to extend this period. This discretionary power has the effect of granting the IMO the ability to independently review any minimum period proposed by the Network Operator.

In deciding whether to exercise this discretion the IMO would take into account the Market Objectives, including Market Objective (c) which requires the avoidance of "... discrimination ... 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". The IMO has discussed this intent with LGP which has indicated that it considers that this approach alleviates the concerns that LGP expressed in its submission.

Further, to put beyond doubt that the IMO may exercise its discretion at the time the contact for network control services is entered into, or at any time after that, the IMO has proposed adding the words "at any time" to the revised clause 5.2.2.

The final form of the proposed amendment is set out in Section 5 of this report.

4.1.2. Consultations

All parties responding to IMO's request for consultation expressed support for System Management's proposal. LGP's support was conditional, but the IMO believes that LGP's concern about the requirement for independence is met by the power granted to the IMO to extend any period specified by the Network Operator.

4.1.3. 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 change is designed to facilitate the maximum overall net cost/benefit in the case of Network Control Service Contracts by allowing the flexibility to optimize the term of the services and timing of the new network investment.

The change would therefore promote the economically efficient and reliable supply of electricity in the South West Interconnected System, and the IMO considers that the proposed changes are consistent with the operation of objective (a) of the Market Objectives. In their submissions, Alinta Sales and Landfill Gas and Power 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: The IMO considers that the proposed changes do not impact on, and therefore are consistent with, the operation of objective (b) of the Market Objectives.

(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 change is designed to facilitate the maximum overall net cost/benefit in the case of Network Control Service Contracts by allowing the flexibility to optimize the term of the services and timing of the new network investment.

The proposed change would therefore help to minimise the long-term cost of electricity supplied to customers from the South West Interconnected System, and the IMO considers that the proposed change is consistent with objective (d) of the Market Objectives.

(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 proposed amendments will not require any changes to the IMO market systems, and no other implementations costs in regard to this change have been identified during the public consultations.

4.2. The IMO's Decision

The IMO's decision is to:

- Accept Western Power's proposed amendments to clauses 5.2.1 and 5.2.2 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 clauses 5.2.1 and 5.2.2 of the Wholesale Electricity Market Rules will commence at 08.00am on 1 December 2007.

5. AMENDING RULES

The following clauses will be amended as follows (~~deleted wording~~, new wording):

- 5.2.1. Where required by the Access Code to submit a major augmentation, as defined in the Access Code, to the tender process set out in the Market Rules, a Network Operator must notify the IMO of the opportunity for network support generation or Demand Side Management to compete with a transmission or distribution upgrade. The notification must include:
- (a) a specification of the services that would be required from the facility, including:
 - i. the maximum active and reactive power quantities required, specified in MW and MVAR;
 - ii. the estimated number of hours per year that the services would be required; and
 - iii. the required period of notice to call upon the services;
 - (b) the location at which the facility would need to connect to the relevant network;
 - (c) the Network Operator's estimate of the costs involved in connecting a generation facility that could provide the services specified in (a) from the location specified in (b);
 - (d) the ~~date time~~ by which the facility is required to be in service; ~~and~~
 - (g) the Network Operator's estimate of the cost of an augmentation to the Network that would provide the services- ; and
 - (h) the minimum period over which the services would be required, from the date specified in (d).
- 5.2.2. The minimum period over which the Network Control Service is required is the period specified under clause 5.2.1(f). ~~ten years from the date specified clause 5.2.1(d).~~ The IMO may at any time extend the length of the contracted period.