

Independent Market Operator



Final Market Rule Change Report

**Title: Alternative Maximum STEM Price -
Monthly Adjustments**

Ref: RC_2007_26

Date: 21 December 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 22 November 2007, the IMO submitted a Rule Change Proposal titled “Alternative Maximum STEM Price - Monthly Adjustments”.

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 and, when the change relates to a protected provision, provide the Final Report to the Minister for approval.
- The Minister must consider the Rule Change Proposal within 20 Business Days and decide whether the Market Rules, as amended or replaced by the proposed Amending Rules, are consistent with the Wholesale Market Objectives.

The key dates in processing this Rule Change Proposal were:

- The Rule Change Notice for this Proposal was published on the IMO website on 23 November 2007.
- On 24 November 2007, the IMO notified interested parties that it wished to consult regarding the Rule Change.
- Consultations on the Rule Change Proposal were completed on 14 December 2007.
- This Final Rule Change Report was published on 21 December 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 implement the Rule Change in the form outlined in this Final Report.

2. THE RULE CHANGE PROPOSAL

2.1. The Submission

The IMO submitted, on 22 November 2007, a Rule Change Proposal regarding changes to clause 6.20.3 in the Wholesale Electricity Market Rules.

2.1.1. Submission details

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Date Submitted:	22/11/2007
Urgency:	High

2.2. The Proposal

The basis for determining the Energy Price Limits (the Maximum STEM Price and the Alternative Maximum STEM Price) is specified in the Market Rules. The Market Rules require the IMO to annually review the appropriateness of the value of the Energy Price Limits. In conducting the review, the IMO may propose revised values for the Maximum STEM Price and the Alternative Maximum STEM Price.

In accordance with the requirements of the Market Rules, in July 2007 the IMO commissioned its first annual review of the appropriateness of the value of the Energy Price Limits specified in the Market Rules. Following public consultation and the approval of the Economic Regulation Authority, the revised Energy Price Limits (including a revised Alternative Maximum STEM Price) became effective on 1 November 2007.

The IMO submitted that the intent of the Market Rules is that the revised Alternative Maximum STEM price be adjusted from 1 December 2007 and subsequent months in accordance with clause 6.20.3.

The IMO considered however that, as currently worded, clause 6.20.3 is only workable in practice if the Alternative Maximum STEM Price is not revised in accordance with clause 6.20.11 of the Market Rules. For example, if a revised value is used with the clause, as it currently stands, for the monthly update of the Alternative Maximum STEM Price, increases in oil prices since July 2006 would be double counted.

The rule change proposal aimed to address this shortcoming and enable the monthly adjustments to the revised value of the Alternative Maximum STEM Price resulting from the review completed in 2007 as well as any subsequent reviews of the Energy Price Limits under the Market Rules.

2.3. Amending Rules Proposed by the IMO

The amendments proposed by the IMO can be found in Section 5 of this Report.

2.4. 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 IMO considered that the change was urgently required and essential for the effective operation of the market. The proposed change would enable monthly adjustments of the Alternative Maximum STEM Price to reflect crude oil price movements and thus assist in ensuring that the short run marginal cost of the highest cost plant on the SWIS does not exceed the Alternative Maximum STEM Price.

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 23 November 2007.

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

The IMO received responses from Landfill Gas and Power, and Verve Energy. 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 14 November 2007, before it was formally submitted by the IMO.

MAC expressed general support for the Rule Change Proposal, and also that the proposal should be fast tracked in order to allow the Alternative Maximum STEM price to be adjusted for January 2008.

3.2. Landfill Gas and Power (LGP)

LGP expressed its support of the proposed Rule Change and that the proposed rule change supports the achievement of the Market Objectives.

LGP agreed with the IMO's contention that the rule change will enable monthly adjustments of the Alternative Maximum STEM Price to reflect crude oil price movements will promote economic efficiency in the market. LGP considers that this will assist in ensuring that the short run marginal costs of the highest cost plant on the SWIS do not exceed the Alternative Maximum STEM Price.

3.3. Verve Energy

Verve Energy expressed its support for the proposed Rule Change and that the proposed rule change supports the achievement of the Market Objectives.

Verve Energy considered that the change enables the appropriate adjustment of the Alternative Maximum STEM Price (AMSP). Verve Energy also noted that it is important that the Short Run Marginal Cost of the highest operating cost plant in the SWIS does not exceed the AMSP.

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 the IMO's proposal. No party proposed any changes to the amendments to the Market Rules proposed by the IMO.

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 IMO considers that this rule change proposal supports objective (a) of the Wholesale Electricity Market Rules. Enabling monthly adjustments of the Alternative Maximum STEM Price to reflect crude oil price movements will promote economic efficiency in the market. This will assist in ensuring that the short run marginal costs of the highest cost plant on the SWIS do not exceed the Alternative Maximum STEM Price. In their submissions, both LGP and Verve Energy agreed with the IMO's 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 this rule change proposal supports objective (b) of the Wholesale Electricity Market Rules by providing confidence to existing and new participants that the short run marginal costs of the relevant facilities can be recovered in the market.

- (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 IMO considers that through the expected positive contribution to the achievement of objectives (a) and (b), the proposed changes are consistent with the operation of 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 implementation of this change will not require changes to the Wholesale Electricity Market System operated by the IMO. 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:

- Implement the proposed amendments to clause 6.20.3 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 6.20.3 of the Wholesale Electricity Market Rules will commence at 08.00am on 21 December 2007.

5. AMENDING RULES

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

Clause 6.20.3

6.20.3. Subject to clause 6.20.11, The Alternative Maximum STEM Price is to equal:

- (a) from 8 AM on September 1, 2006, \$480/MWh; and
- (b) from 8 AM on the first day of each subsequent month the sum of:
 - i. \$440/MWh multiplied by the amount determined as follows:
 - 1. the average of the Singapore Gas Oil (0.5% sulphur) price, expressed in Australian dollars, for the three months ending immediately before the preceding month as published by the International Energy Agency in its monthly Oil Market Report, or the average of another suitable published price as determined by the IMO, divided by;
 - 2. the average of the Singapore Gas Oil (0.5% sulphur) price, expressed in Australian dollars, for May, June and July 2006 or, if a revised Alternative Maximum STEM Price takes effect in accordance with clause 6.20.11, for the three months ending immediately before the month preceding the month in which the revised Alternative Maximum STEM Price takes effect, as published by the International Energy Agency in its monthly Oil Market Report, or the average of another suitable published price as determined by the IMO; and
 - ii from 8 AM on September 1, 2006, to 8 AM on 1 September, 2007, \$40/MWh, and for each subsequent 12-month period \$40/MWh multiplied by the CPI for the June quarter of the relevant 12-month period divided by CPI for the 2006 June quarter or, if a revised Alternative Maximum STEM Price takes effect in accordance with clause 6.20.11, the June quarter of the year in which the revised Alternative Maximum STEM Price takes effect, where CPI is the weighted average of the Consumer Price Index All Groups value of the eight Australian State and Territory capital cities as determined by the Australian Bureau of Statistics.

rounded to the nearest whole dollar, where a half dollar is rounded up, with the exception that from the date and time that a revised Alternative Maximum STEM Price takes effect in accordance with clause 6.20.11,

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the revised values supersede the values in 6.20.3(b)(i) and 6.20.3(b)(ii), and are to be the values used in calculating the Alternative Maximum STEM Price for each month subsequent to the month in which the revised Alternative Maximum STEM Price takes effect.