

Independent Market Operator



Draft Market Rule Change Report

Title: SWIS Reliability Planning Criteria

Ref: RC_2007_28

Standard Rule Change Process

Date: 8 February 2008

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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 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
- (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. 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.

1.1. *About this Rule Change*

The IMO submitted, on 27 November 2007, a Rule Change Proposal regarding changes to clause 4.5.9 in the Wholesale Electricity Market Rules (Market Rules).

The proposal is being processed using the Standard Rule Change Process, described in section 2.7 of the Market Rules.

The standard process adheres to the following timelines, outlined in section 2.7 of the Market Rules:

- The first Public Submission period is 6 weeks after the IMO has published the Rule Change Notice for the Proposal.
- The IMO must publish a Draft Rule Change report within 20 Business Days of the end of the first submission period.
- The second Public Submission period is for a minimum of 20 Business Days

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from the date the Draft Rule Change Report is published.

- Within 20 Business Days after the end of the second Public Submission period, the IMO must publish a Final Rule Change Report.

The key dates in processing this Rule Change Proposal are:

- The Rule Change Notice for this Proposal was published on the IMO website on 28 November 2007
- The first Public Submission period on the Rule Change Proposal ended on 10 January 2008
- This Draft Rule Change Report is published on 8 February 2008
- The second Public Submission period is from 9 February to 10 March 2008
- The Final Rule Change Report will be published by the IMO on 4 April 2008

Based on the submissions received, the IMO's draft decision is to accept the Rule Change in the form outlined in Section 6 of this report.

This Draft Rule Change Report on the Rule Change Proposal has been prepared by the IMO in accordance with clause 2.7.6 of the Market Rules.

Interested parties are invited to provide further submissions in relation to this Draft Rule Change Report. In accordance with the Market Rules timelines, the deadline for submissions is 10 March 2008.

2. THE RULE CHANGE PROPOSAL

2.1. *The Submission*

The IMO submitted, on 27 November 2007, a Rule Change Proposal regarding changes to clause 4.5.9 in the Wholesale Electricity Market Rules.

2.1.1. *Submission Details*

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Organisation:	Independent market Operator
Address:	Level 22, 221 St Georges terrace, Perth WA 6000
Date submitted:	27 November 2007
Urgency:	Normal

2.2. *Details of the Proposal*

The Planning Criteria to be used in the Long Term Projected Assessment of System Capacity, which is published in the Statement of Opportunities Report, are set out in clause 4.5.9 of the Market Rules. One criteria is that there must be sufficient capacity to meet the forecast peak demand plus a reserve margin based, to a large extent, on the size of the largest generating unit on the system.

The IMO submitted that, because the size of the largest generating unit may not change for some years, it is likely that the reserve margin will reduce as a proportion, as the maximum demand on the system grows. The IMO therefore proposed that the reserve margin be set at the larger of the largest unit size or a defined percentage of the forecast maximum demand. This latter term means that the reserve margin will increase in proportion to the forecast maximum demand.

The IMO proposed this rule change as a result of a study undertaken by CRA International, which has been published on the IMO website. The nominated reserve margin of 8.2% has also been developed through a process that incorporated input from Market Participants and other interested parties. Comparisons with reliability criteria in other markets were obtained through reviewing reserve margins applying in other jurisdictions. A cost-benefit analysis of the change to the reserve plant margin was also undertaken. This analysis is available in the CRA International report, available on the IMO website.

2.3. *Amending Rules Proposed by the IMO*

The IMO proposed the following amendments to the Market Rules (added words are underlined):

- 4.5.9. The Planning Criterion to be used by the IMO in undertaking a Long Term PASA study is that there should be sufficient available capacity in each Capacity Year during the Long Term PASA Planning Horizon to:
- (a) meet the forecast peak demand (including transmission losses and allowing for Intermittent Loads) supplied through the SWIS ~~even after the outage of the largest generation unit plus a reserve margin~~ equal to the greater of:
 - i. 8.2% of the forecast peak demand (including transmission losses and allowing for Intermittent Loads); and
 - ii. the maximum capacity, measured at 41°C, of the largest generating unit;

and while maintaining the Minimum Frequency Keeping Capacity for normal frequency control. The forecast peak demand should be calculated to a probability level that the forecast would not be expected to be exceeded in more than one year out of ten; and
 - (b) limit expected energy shortfalls to 0.002% of annual energy consumption (including transmission losses).

2.4. The IMO's Initial Assessment of the Proposal

The IMO decided to proceed with the Proposal on the basis of its preliminary assessment, which indicated that the Proposal was consistent with the Wholesale Market Objectives. This preliminary assessment was published in a Rule Change Notice on 28 November 2007.

3. SUBMISSIONS

IMO received submissions from Landfill Gas and Power, and Synergy. A summary of these submissions is listed below. The submissions can be found on the IMO website.

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 proposed change. MAC also discussed if 8.2% was an appropriate level for the reserve margin. System Management noted that it would have preferred a larger margin, but deemed 8.2% as an adequate compromise between system security and cost to the market. MAC also noted that, as the overall system demand increases over time, the reserve margin will also increase in real MW terms.

At the MAC meeting on 12 December 2007, members were invited to express their view on the formal proposal. MAC supported the proposed change. No member expressed concerns with the proposal.

3.2. *Landfill Gas and Power (LGP) Submission*

LGP expressed its support for the IMO's proposal as the proposal sought to ensure that, as system load increases, system reliability is maintained at its current level. LGP considered that the proposed changes will achieve this by facilitating sufficient reserve capacity onto the system to ensure that the level of involuntary supply interruptions is kept to a minimum. LGP also accepted the suggested percentage of 8.2% as an appropriate level.

3.3. *Synergy Submission*

Synergy expressed its support for the IMO's proposal at this stage. Synergy viewed IMO's proposal as having some technical merit and did not foresee any material adverse impacts on Synergy's operations. Synergy also accepted the IMO's view that the proposed rule change would support the Market Objective "to promote the economically efficient, safe and reliable production and supply of electricity and electricity related services in the South West interconnected system".

3.4. *Public Forums and Workshops*

No public forums or workshops were held in relation to this Rule Change.

4. THE IMO'S ASSESSMENT AND DECISION

4.1. Assessment

4.1.1. Submissions

No interested party expressed any concern regarding the proposed change. In their submissions, Landfill Gas and Power, and Synergy expressed their support for the proposal. The IMO therefore considers that the proposed change has the support of the Participants in the Wholesale Electricity Market.

4.1.2. The IMO's Assessment

The IMO' assessment against each of the Wholesale 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.*

The IMO considers that the proposal supports the achievement of market objective (a). The proposal is intended to ensure that system reliability is maintained at a satisfactory level as total system demand increases. It achieves this by facilitating sufficient certified reserve capacity onto the system to ensure that the level of involuntary supply interruptions is kept to a minimum. The proposed change is aimed at maintaining system reliability at its current level, as forecast system demand increases. In its submission, Synergy 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.*

The IMO considers that the proposal does not impact on, and therefore is consistent with, the operation of market objective (b).

- (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.*

The IMO considers that the proposal does not impact on, and therefore is consistent with, the operation of market objective (c).

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

Involuntary supply interruptions impose significant costs on end-use customers. These comprise both indirect costs, such as loss of amenity and loss of production, and direct costs associated with the installation and operation of back-up generation. The IMO considers that the proposal supports the achievement of market objective (d) by ensuring that the reserve margin on the system is maintained as system load increases.

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

The IMO considers that the proposal does not impact on, and therefore is consistent with, the operation of market objective (e).

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 changes to clause 4.5.9 will not require changes to the Wholesale Electricity Market System operated by the IMO. While the change will involve some additional costs as a result of the increase in the system reserve margins as demand grows, these costs will be offset by the benefits of maintaining reliability of electricity supply at its current level and minimising supply interruptions to customers.

4.2. IMO's Draft Decision

The IMO's draft decision is to:

- Implement the proposed changes to clause 4.5.9 as proposed. This will amend the clause to set the reserve margin for the SWIS to be the greater of 8.2% of the forecast peak demand and the capacity of the largest generating unit measured at 41°C plus a margin to maintain frequency keeping capability.

The IMO has made its draft decision on the basis that the resulting amendments will allow the Market Rules to better address the Wholesale Market Objectives.

The wording of the relevant Amending Rules is presented in Section 6 of this Report.

5. CALL FOR SUBMISSIONS

The IMO wishes to receive submissions regarding this Draft Rule Change Report. The submission period is 20 Business Days from the publication date of this Report. Submissions must be delivered to the IMO by close of business on Monday 10 March 2008.

The IMO prefers to receive submissions by email to marketadmin@imowa.com.au using the submission form available on the IMO website:

http://www.imowa.com.au/10_5_1_b_rule_change_proposal.htm

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

Independent Market Operator

Attn: Dora Guzeleva, Manager Market Administration
PO Box 7096
Cloisters Square, Perth, WA 6850

Fax: (08) 9254 4399

6. PROPOSED AMENDING RULES

6.1. *Clause 4.5.9*

- 4.5.9. The Planning Criterion to be used by the IMO in undertaking a Long Term PASA study is that there should be sufficient available capacity in each Capacity Year during the Long Term PASA Planning Horizon to:
- (a) meet the forecast peak demand (including transmission losses and allowing for Intermittent Loads) supplied through the SWIS ~~even after the outage of the largest generation unit plus a reserve margin~~ equal to the greater of:
 - i. 8.2% of the forecast peak demand (including transmission losses and allowing for Intermittent Loads); and
 - ii. the maximum capacity, measured at 41°C, of the largest generating unit;

~~and~~ while maintaining the Minimum Frequency Keeping Capacity for normal frequency control. The forecast peak demand should be calculated to a probability level that the forecast would not be expected to be exceeded in more than one year out of ten; and
 - (b) limit expected energy shortfalls to 0.002% of annual energy consumption (including transmission losses).