

Independent Market Operator



Final Market Rule Change Report

Title: Dispatch Support Ancillary Services

Ref: RC_2008_12

Fast Track Rule Change Process

Date: 18 March 2008

CONTENTS

1. INTRODUCTION	2
1.1. General Information about Rule Changes	2
1.2. About this Rule Change.....	2
2. THE RULE CHANGE PROPOSAL.....	4
2.1. The Submission	4
2.2. The Proposal	4
2.3. Amending Rules Proposed by System Management.....	5
2.4. The IMO's Initial Assessment of the Proposal.....	7
3. RULE PARTICIPANTS CONSULTED	8
3.1. Market Advisory Committee	9
3.2. Workshop.....	9
3.3. Economic Regulation Authority (ERA)	10
3.4. Landfill Gas and Power (LGP).....	10
3.5. Western Power Networks	10
4. THE IMO'S ASSESSMENT AND DECISION	11
4.1. Assessment	11
4.2. The IMO's Decision	12
4.3. Minister Approval.....	12
4.4. Amending Rules Commencement.....	13
5. AMENDING RULES	14

DOCUMENT DETAILS

IMO Report No.: RC_2008_12
Report Title: Dispatch Support Ancillary Services
Release Status: Public
Confidentiality Status: Public domain
Published in accordance with Market Rule 2.6.4

Independent Market Operator

Level 22, The Forrest Centre
221 St George's Terrace, Perth WA 6000
PO Box 7096, Cloisters Square, Perth WA 6850
Tel. (08) 9254 4300
Fax. (08) 9254 4399
Email: imo@imowa.com.au
Website: www.imowa.com.au

1. INTRODUCTION

1.1. *General Information about Rule Changes*

Clause 2.5.1 of the Wholesale Electricity Market Rules (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.

1.2. *About this Rule Change*

On 4 January 2008, System Management submitted a Rule Change Proposal titled "Dispatch Support Ancillary Services".

The proposal was processed using the Fast Track Rule Change Process, described in section 2.6 of the Market Rules. The fast track process was used as the proposal satisfied the requirements of clause 2.5.9 (a) 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 18 February 2008.
- On 19 February 2008, the IMO notified interested parties that it wished to consult regarding the Rule Change.
- Consultations on the Rule Change Proposal were completed on 11 March 2008.
- This Final Rule Change Report was published on 18 March 2008.
- The Minister's decision on the Final Rule Change Report and the Market Rule Change Proposal is expected to be available by 17 April 2008.

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 Proposal in the form outlined in section 5 of this Final Rule Change Report.

2. THE RULE CHANGE PROPOSAL

2.1. The Submission

System Management submitted, on 14 February 2008, a Rule Change Proposal regarding changes to clauses 2.23.12, 3.11.18 and 3.13.1, and the addition of new clauses 3.11.8(A-D) in the Wholesale Electricity Market Rules (Market Rules).

2.1.1. Submission details

Name:	Alistair Butcher
Phone:	9427 5787
Fax:	9427 4228
Email:	Alistair.butcher@westernpower.com.au
Organisation:	System Management
Address:	
Date submitted:	14 February 2008
Urgency:	3 - High
Change Proposal title:	Dispatch Support Ancillary Services

2.2. The Proposal

System Management submitted that the Market Rules make provision for a class of Ancillary Services called “Dispatch Support”. Dispatch Support arrangements are designed to allow the dispatch of facilities to support the security and reliability of the network.

System Management currently utilises several strategically located Verve Energy facilities for Dispatch Support purposes, but may also utilise facilities of other Market Participants in the future. System Management submits that currently limited mechanisms exist for System Management to procure in a timely manner, and pay for, the Dispatch Support services it acquires. This has the effect that Verve Energy is not compensated for the out-of-merit use of its relevant facilities by System Management.

Clause 2.23 of the Market Rules, which provides for System Management’s allowable revenue for both system operation services and Ancillary Services, may be adjusted within a “review period” in certain circumstances. System Management submitted that under the current Market Rules it may make an application to vary the Ancillary Services allowable revenue where it is necessary to procure additional Ancillary Services, or, in this case, to ensure that appropriate compensation is paid for those facilities that already provide Dispatch Support services.

According to System Management’s proposal, both System Management and the IMO were of the view that it is not feasible to propose a particular amount for Dispatch Support, as this value will vary significantly on a month-by-month basis, depending on the amount of dispatch support obtained. Consequently, it is considered that adopting a formula will best reflect the amount of Dispatch Support acquired in any given month.

System Management submitted, however, that the Economic Regulation Authority (ERA) has expressed doubts concerning whether System Management may propose, and the ERA may approve, a value for Dispatch Support which is based around a formula; that is, the ERA considers that the Market Rules may require System Management to propose a particular amount for Dispatch Support.

In order to deal with this potential issue, and to ensure Verve Energy and other potential suppliers of Dispatch Support are adequately compensated, System Management proposed to amend the Market Rules to remove the value of Dispatch Support from the allowable revenue and budget approval processes.

System Management submitted that it does not, however, propose to amend the Market Rules to remove regulatory oversight/approval of Dispatch Support arrangements, but merely to remove Dispatch Support from being approved as part of System Management's budget. System Management must also continue to satisfy the requirements of clause 3.11.9 of the Market Rules before entering into Ancillary Service Contracts (i.e. seek to minimise the cost for the contract and consider using a competitive tender process).

To address concerns that regulatory approval of an intended Ancillary Service Contract may cause substantial delay, System Management's proposal provided the ERA with discretion whether to engage in public consultation. Further, the proposal constrained the ERA to make a decision whether to approve the intended Dispatch Support arrangement within 20 business days of receiving an application from System Management.

The proposal aimed to achieve the following outcomes:

- allow System Management to enter into Dispatch Support arrangements, provided that regulatory approval is given; and
- remove the concept of Dispatch Support from the budgetary process of the Market Rules, while ensuring that the settlement mechanisms remain unchanged.

2.3. Amending Rules Proposed by System Management

System Management proposed the following amendments to the Market Rules (~~deleted words~~, added words):

Clause 2.23.12

2.23.12 The Economic Regulation Authority must take the following into account when determining the allowable revenue of System Management:

...

- (d) the determination of the Allowable Revenue of Ancillary Service provision must take into account the payment structure set out in clause 3.13, and the Economic Regulation Authority must determine values for:
 - i. the reserve availability payment margin applying for Peak Trading Intervals, `Margin_Peak`, which must take account of:
 1. the margin the Electricity Generation Corporation could reasonably have been expected to earn on energy sales forgone due to the supply of Spinning Reserve during Peak Trading Intervals;
 2. the loss in efficiency of the Electricity Generation Corporation Registered Facilities that System

Management has scheduled to provide Spinning Reserve during Peak Trading Intervals that could reasonably be expected due to the scheduling of those reserves;

- ii. the reserve availability payment margin applying for Off-Peak Trading Intervals, Margin_Off-Peak, which must take account of:
 - 1. the margin the Electricity Generation Corporation could reasonably have been expected to earn on energy sales forgone due to the supply of Spinning Reserve during Off-Peak Trading Intervals;
 - 2. the loss in efficiency of the Electricity Generation Corporation Registered Facilities that System Management has scheduled to provide Spinning Reserve during Off-Peak Trading Intervals that could reasonably be expected due to the scheduling of those reserves;
- iii. Cost_LRD, which must cover the costs for providing the Load Rejection Reserve, and System Restart and Dispatch Support Ancillary Services, but does not take into account the costs for providing Dispatch Support Ancillary Services.

Clause 3.11.8

- 3.11.8 System Management may enter into an Ancillary Service Contract with a Rule Participant other than the Electricity Generation Corporation, for Spinning Reserve and Load Following Ancillary Services, where:
- (a) it does not consider that it can meet the Ancillary Service Requirements with the Electricity Generation Corporation's Registered Facilities; or
 - (b) the Ancillary Service Contract provides a less expensive alternative to Ancillary Services provided by the Electricity Generation Corporation's Registered Facilities.

Clauses 3.11.8A-D (all new)

- 3.11.8A System Management may enter into an Ancillary Service Contract with a Rule Participant for Load Rejection Reserve, System Restart and Dispatch Support Ancillary Services.
- 3.11.8B System Management must seek the approval of the Economic Regulation Authority before entering into an Ancillary Service Contract.
- 3.11.8C The Economic Regulation Authority must, within 20 business days of receiving an application from System Management under clause 3.11.8B, approve an Ancillary Service Contract which satisfies the requirements of clause 3.11.9.

3.11.8D The Economic Regulation Authority may undertake a public consultation process in determining whether to approve the Ancillary Service Contract for Dispatch Support Service. In determining whether to undertake a public consultation process, the Economic Regulation Authority must have regard to the terms of the Ancillary Service Contract, in particular the length of its intended operation and whether a need exists to expedite the approval process.

Clause 3.13.1

3.13.1 The total payments by the IMO on behalf of System Management for Ancillary Services in accordance with Chapter 9 comprise:

...

- (d) Cost_LRD, the monthly amount for Load Rejection Reserve, and System Restart services and Dispatch Support services, determined in accordance with System Management's budget process described in clause 2.23, and Dispatch Support service determined in accordance with clause 3.11.8C.

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 (a) of the Market Rules. The IMO considered that that the change was of a procedural nature and, in order to avoid further negative financial impact on Market Participants, it should be progressed using the Fast Track Rule Change Process.

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

The IMO indicated that it would hold a workshop on 28 February 2008 and invited interested parties to attend the workshop. The IMO also requested interested parties to provide their views on the Rule Change Proposal in writing.

In addition, an invitation for all Rule Participants to contact the IMO, should they wish to be consulted on this Rule Change, was published on the IMO website on 18 February 2008, together with the Rule Change Notice.

Alinta Sales, ERA, Griffin Energy, Office of Energy, System Management, Transalta and Verve Energy attended the workshop.

The IMO also received written submissions from the ERA, Landfill Gas and Power and Western Power Networks.

Following is a summary of the workshop deliberations and feedback received through submissions. The minutes from the workshop are published on the IMO website, together with this Final Rule Change Report.

3.1. Market Advisory Committee

The Market Advisory Committee (MAC) was invited to have preliminary discussions on the Proposal at its meeting on 12 February 2008, before it was formally submitted by System Management.

MAC expressed general support for the Rule Change Proposal.

3.2. Workshop

A workshop on the Rule Change Proposal was held by the IMO on 28 February 2008. The workshop was attended by Alinta Sales, ERA, Griffin Energy, Office of Energy, System Management, Transalta, Verve Energy and the IMO. The IMO presented the proposed rule changes. The following modifications to the proposed amending rules were agreed by the participants in the workshop:

- It was agreed that the new clause 3.11.8B should be amended to clarify that ERA's approval only applies to Dispatch Support contracts, not other types of Ancillary Service contracts.
- It was also agreed that the ERA's responsibility is to review whether a Dispatch Support contract will achieve the lowest practicably sustainable cost of delivering the services. However, a risk was identified that the rules as drafted will only allow the ERA to approve the process followed by System Management, not the relevant costs. It was agreed that the proposed changes should be amended to remove this risk.
- In regard to approving the contracts, the ERA indicated that the proposed wording of clause 3.11.8C could be interpreted to read that the ERA was to approve the entire contract, including all legal terms and conditions. It was agreed that this was not the intent and the draft should be amended accordingly.
- The proposed time limit related in clause 3.11.8C should be removed from the proposal. This was agreed on the basis that it is impracticable for the ERA to comply with 20 business days if it needs to go through a public consultation process or needs to receive further information from any of the parties involved in the contract. If future experiences reveal the need for a time limit, this can be proposed in a new Rule Change Proposal.
- In regard to the new clause 3.11.8D, in order to provide the ERA with means to justify expediting a contract assessment without a public consultation process, it was agreed to keep the rest of the proposed clause, but replace the words "in particular" with "including".
- It was also proposed that System Management should amend its procedures to provide participants with Dispatch Support instructions issued out of merit. Currently participants do not know when a dispatch instruction is issued specifically for Dispatch Support purposes.

Following the workshop, the IMO redrafted the proposed new clauses 3.11.B, 3.11.C and 3.11.D. The revisions were provided to the ERA and System Management for review. Both parties agreed that the redrafted clauses, as published in section 5 of this Report, correctly reflected the discussions and outcomes of the workshop.

3.3. Economic Regulation Authority (ERA)

ERA provided a written submission in which it expressed its support for the proposal subject to the modifications to clauses 3.11.B, 3.11.C and 3.11.D proposed by the IMO following the workshop. With these modifications, ERA considered that the change will allow the Market Rules to better address market objectives a) and b).

3.4. Landfill Gas and Power (LGP)

LGP supported the proposal on the grounds that Market Participants that supply Dispatch Support ought to be properly compensated. LGP accepted that the current provisions of the Market Rules may be unworkable and supported the proposed removal of Dispatch Support from the allowable revenue and budget approval processes. LGP submitted that it agreed with System Management's contention that the proposal would allow the Market Rules to better address market objectives (a), (b) and (d).

3.5. Western Power Networks

Western Power expressed its support of the proposal. Western Power considered that the current arrangements under the Market Rules are inequitable for Verve Energy in that they are not always fairly compensated for the services they provide. Western Power submitted that the proposal will make the Market Rules more consistent with the market objectives, especially market objective a), to promote the economically efficient, safe and reliable production and supply of electricity.

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 System Management's proposal.

At the workshop held by the IMO on 28 February 2008 participants discussed and agreed on a number of modifications summarised in section 3.2 of this report. In its submission, ERA expressed its support for the modifications as drafted by the IMO following the workshop.

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.*

The IMO considers that the proposal supports market objective (a) by allowing for Dispatch Support contracts to be entered in a timely and efficient manner, in order to maintain system reliability in areas where transmission constraints require Dispatch Support to be in place. In their submissions, the ERA, Landfill Gas and Power and Western 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.*

The IMO considers that the proposed changes do not impact on, and therefore are 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 proposed changes do not impact on, and therefore are 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*

The IMO considers that the proposal supports market objective (d) by allowing for Dispatch Support arrangements to be entered in order to provide generation alternatives where network transmission is constrained. Dispatch Support can be a reliable and cost effective alternative to expensive transmission line upgrades. This change will therefore contribute to minimising the long term cost of electricity supplied to customers in the SWIS. In their submissions, the ERA and Landfill Gas and Power supported this assessment.

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

The IMO considers that the proposed changes do not impact on, and therefore are 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 amendments.

No 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 the amendments to clauses 2.23.12, 3.11.8 and 3.13.1 of the Wholesale Electricity Market Rules as proposed by System Management in its Rule Change Proposal.
- Accept the new clause 3.11.8A of the Wholesale Electricity Market Rules as proposed by System Management in its Rule Change Proposal.
- Accept the new clauses 3.11.8B, 3.11.8C and 3.11.8D with the modifications agreed by industry participants at a workshop held by the IMO on 28 February 2008 and outlined in section 3.2 of this Report.

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

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

4.3. Minister Approval

Clause 2.23.12 of the Market Rules is a Protected Provision, as specified in clause 2.8.13 of the Market Rules. Amendments to Protected Provisions require approval from the Minister for Energy. As required under clause 2.8.3 of the Market Rules, the IMO will submit this Final Rule Change Report to the Minister for Energy for his consideration. The Minister's decision is expected to be available by 17 April 2008.

4.4. Amending Rules Commencement

Subject to receipt of the Minister's approval, the amendments to the Wholesale Electricity Market Rules will commence at 08.00am on 20 April 2008.

5. AMENDING RULES

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

Clause 2.23.12

2.23.12 The Economic Regulation Authority must take the following into account when determining the allowable revenue of System Management:

...

- (d) the determination of the Allowable Revenue of Ancillary Service provision must take into account the payment structure set out in clause 3.13, and the Economic Regulation Authority must determine values for:

...

- iii Cost_LRD, which must cover the costs for providing the Load Rejection Reserve, and System Restart and Dispatch Support Ancillary Services, but does not take into account the costs for providing Dispatch Support Ancillary Services.

Clause 3.11.8

3.11.8 System Management may enter into an Ancillary Service Contract with a Rule Participant other than the Electricity Generation Corporation, for Spinning Reserve and Load Following Ancillary Services, where:

...

Clause 3.11.8A

3.11.8A System Management may enter into an Ancillary Service Contract with a Rule Participant for Load Rejection Reserve, System Restart and Dispatch Support Ancillary Services.

Clause 3.11.8B

3.11.8B System Management must obtain the approval of the Economic Regulation Authority before entering into an Ancillary Service Contract for Dispatch Support Ancillary Services.

Clause 3.11.8C

3.11.8C The Economic Regulation Authority must only review whether an Ancillary Service Contract, to which 3.11.8B applies, would achieve the lowest practicably sustainable cost of delivering the services.

Clause 3.11.8D

3.11.8D The Economic Regulation Authority may undertake a public consultation process in determining whether to approve the Ancillary Service Contract for Dispatch Support Service. In determining whether to undertake a public consultation process, the Economic Regulation Authority must have regard to the terms of the Ancillary Service Contract, including the length of its intended operation and whether a need exists to expedite the approval process.

Clause 3.13.1

3.13.1 The total payments by the IMO on behalf of System Management for Ancillary Services in accordance with Chapter 9 comprise:

...

- (d) Cost_LRD, the monthly amount for Load Rejection Reserve, and System Restart services and Dispatch Support services, determined in accordance with System Management's budget process described in clause 2.23, and Dispatch Support service determined in accordance with clause 3.11.8B.