



Independent Market Operator

**Final Market Rule Change
Report**

**Title: Eligible Services for
Supplementary Reserve
Capacity**

Ref: RC_2008_28

Date: 16 January 2009

Contents

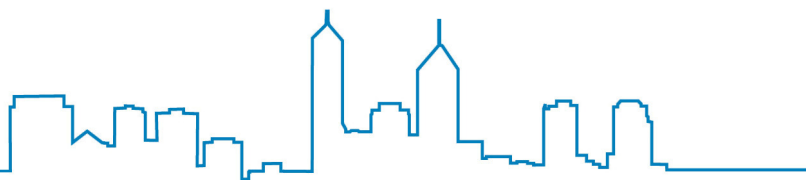
1.	INTRODUCTION.....	3
2.	THE RULE CHANGE PROPOSAL.....	4
2.1	Submission Details.....	4
2.2	Details of the Proposal.....	4
2.3	The Proposal and the Wholesale Market Objectives.....	5
2.4	The Amending Rules Proposed by the IMO.....	5
3.	FIRST SUBMISSION PERIOD.....	6
3.1	Market Advisory Committee.....	6
3.2	Submissions received.....	6
3.2.1	Submission from Alinta.....	7
3.2.1.1	The IMO's response to Alinta's submission.....	7
3.2.2	Submission from Landfill Gas and Power.....	7
3.2.3	Submission from Synergy.....	7
3.3	Public Forums and Workshops.....	8
3.3.1	Supplementary Reserve Capacity Working Group.....	8
4.	THE IMO'S DRAFT DECISION.....	9
5.	SECOND SUBMISSION PERIOD.....	10
6.	THE IMO'S FINAL ASSESSMENT.....	10
6.1	Market Objectives.....	10
6.2	Practicality and cost of implementation.....	11
6.3	Views expressed in submissions.....	11
7.	THE IMO'S FINAL DECISION.....	11
7.1	Amending Rules Commencement.....	11
8.	AMENDING RULES.....	11
9.	GENERAL INFORMATION ABOUT RULE CHANGE PROPOSALS.....	12

DOCUMENT DETAILS

IMO Notice No.: RC_2008_28
Report Title: Eligible Services for Supplementary Reserve Capacity
Release Status: Public
Confidentiality Status: Public domain
Published in accordance with Market Rule 2.7.8

Independent Market Operator

Level 3, Governor Stirling Tower
197 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

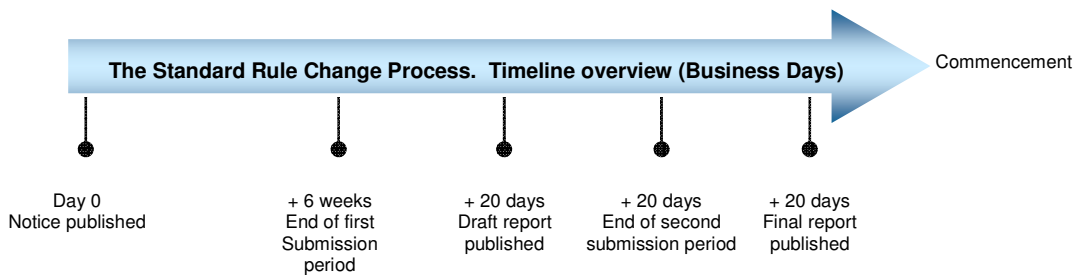


1. INTRODUCTION

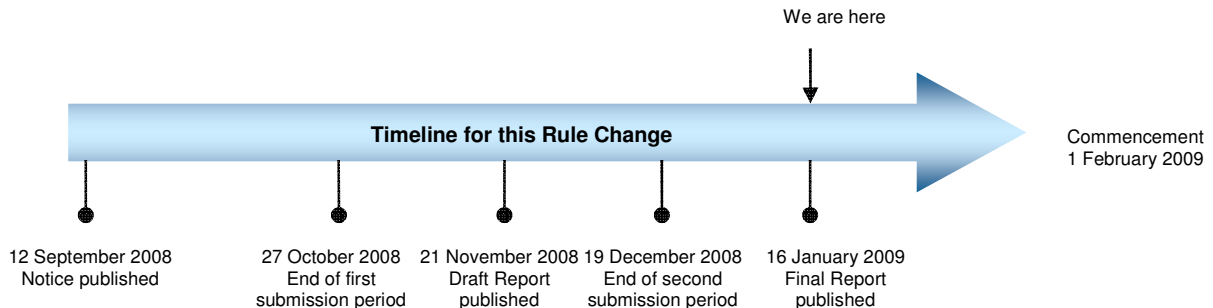
On 11 September 2008, the Independent Market Operator (IMO) submitted a Rule Change Proposal regarding changes to clauses 4.24.3 and 4.24.19 of the Wholesale Electricity Market Rules (Market Rules).

This Proposal was processed using the Standard Rule Change Process, described in section 2.7 of the Market Rules.

The standard process adheres to the following timelines:



The key dates in processing this Rule Change Proposal are:



Based on the IMO's assessment of the Rule Change Proposal against the Market Objectives, the practicality and cost of implementing the proposal, views of the MAC and the submissions received, the IMO's final decision is to implement the Rule Change Proposal in the form outlined in section 8 of this Report.

This Final Rule Change Report on the Rule Change Proposal has been prepared by the IMO in accordance with clause 2.7.8 of the Market Rules.

The amendments to the Market Rules made as a result of this Rule Change Proposal will commence at 08.00am on 1 February 2009.

2. THE RULE CHANGE PROPOSAL

2.1 Submission Details

Name:	Allan Dawson
Phone:	(08) 9254 4300
Fax:	(08) 9254 4399
Email:	imo@imowa.com.au
Organisation:	Independent Market Operator
Address:	Level 3, 197 St George's Terrace, Perth WA 6000
Date submitted:	11 September 2008
Urgency:	High
Change Proposal title:	Eligible services for Supplementary Reserve Capacity

2.2 Details of the Proposal

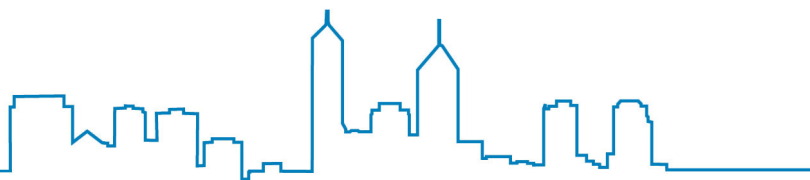
The proposed changes regarding services eligible to partake in the Supplementary Reserve Capacity (SRC) process were borne out of the SRC Working Group's deliberations on this matter.

The Market Rules currently confine the eligible services for SRC to:

- (a) load reduction, that is measures to reduce a consumer's consumption of electricity supplied through the SWIS, but excluding reductions associated with the operation of Registered Facilities (including Registered Loads); and
- (b) the generation of electricity by generation systems that are not Registered Facilities.

The SRC Working Group unanimously agreed that the core objective of SRC is to ensure reliability while maintaining economic efficiency. Consequently, the SRC Working Group decided to allow some Registered Facilities to partake in the SRC process, but to limit the participation to those unlikely to be in a position to take undue advantage of the SRC process.

In accordance with the decision of the SRC Working Group, the IMO proposed amendments to clause 4.24.3 to allow Registered Facilities, that are permitted to enter the SRC process, to include those facilities with spare capacity (i.e. capacity that does not hold Capacity Credits) in the current Reserve Capacity cycle but which hold Capacity Credits for future cycles. The IMO posited that this condition is necessary so as to prevent Registered Facilities with Capacity Credits in previous Reserve Capacity Cycles from withholding them from the normal Capacity Credit processes so as to activate the SRC process and benefit from much higher prices.



The IMO's proposed amendments also clarify that Market Customers with a Demand Side Program that have failed to satisfy their Reserve Capacity Obligations in accordance with clause 4.8.3(d) cannot participate in the SRC process.

The IMO stated that a regular review of the SRC process against the Wholesale Market Objectives was suggested by the SRC Working Group, given the fact that the use of SRC may place a considerable financial burden on the market and that it was intended to be a very infrequent event.

The IMO also proposed that clause 4.24.19 be added stipulating that a review must follow each call for tenders of SRC where that review must entail an assessment of the appropriateness of the provisions pertaining to SRC under clause 4.24 and a public consultation process seeking to garner feedback on the outcome of the review.

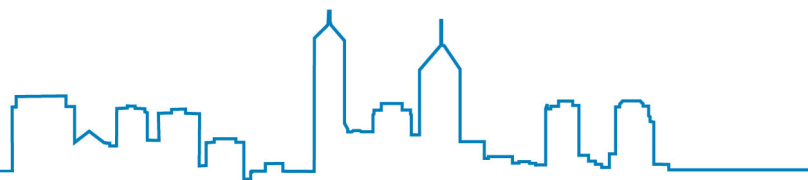
2.3 The Proposal and the Wholesale Market Objectives

The IMO's submission regarding how the amendments will allow for the Market Rules to better address the Wholesale Market Objectives can be found in section 6.1.2 of this report.

2.4 The Amending Rules Proposed by the IMO

In its Rule Change Notice the IMO proposed the following amendments to the Market Rules (~~deleted words~~, added words):

- 4.24.3. The only eligible sources of supplementary capacity are the following services ("**Eligible Services**"):
- (a) load reduction, that is measures to reduce a consumer's consumption of electricity supplied through the SWIS, but excluding reductions associated with the operation of Registered Facilities (including registered Loads) or reductions provided by a Market Customer with a Demand Side Programme that does not satisfy its Reserve Capacity Obligations for the current Reserve capacity Cycle in accordance with clause 4.8.3(d) at the time the IMO seeks to acquire supplementary capacity; and
 - (b) the generation of electricity by generation systems that are not Registered Facilities;
 - (c) the generation of electricity by generation systems, or load reductions provided by loads, that are Registered Facilities but only to extent that:
 - (i) the electricity is generated, or the load reduction is provided, by capacity for which the relevant Market Participant does not hold Capacity Credits in the current Reserve Capacity Cycle; and
 - (ii) the electricity is not generated, or the load reduction is not provided, by capacity which has provided Capacity Credits in the current Reserve Capacity Cycle or a previous Reserve Capacity Cycle; and



(iii) the electricity is generated or the load reduction is provided, by capacity for which the relevant Market Participant holds Capacity Credits in a subsequent Reserve Capacity Cycle.

4.24.19. Following each call for tenders for supplementary capacity or otherwise acquiring Eligible Services, the IMO must review the Supplementary Reserve Capacity provisions of this section 4.24 of the Market Rules with regard to the Wholesale Market Objectives and must undertake a public consultation process in respect of the outcome of the review.

2.5 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 12 September 2008.

3. FIRST SUBMISSION PERIOD

The first submission period for this Rule Change Proposal was between 15 September 2008 and 27 October 2008.

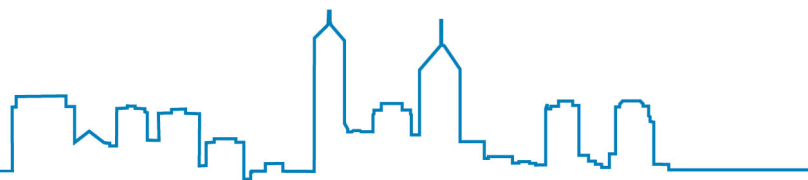
3.1 Market Advisory Committee

The Market Advisory Committee (MAC) was first advised of the proposed Rule Change at its meeting on 10 September 2008, before it was formally submitted by the IMO. At the meeting, MAC was in general support of the proposal and of the IMO submitting it as a formal Rule Change Proposal.

MAC members were also invited to discuss the proposal at the MAC meeting on 8 October 2008, after the proposal had been published on the IMO website. MAC advised that, in accordance with the SRC Working Group's decision, the proposed Amending Rules should be changed so that physical equipment installed specifically for the purpose of SRC was included as a source of additional capacity. The IMO agreed with the MAC's recommendations and subsequently amended the proposed rules to reflect the Working Group's suggestions. Details of the further proposed changes to the Amending Rules borne out of the SRC Working Group's deliberations are provided in section 3.3.1.

3.2 Submissions received

During the first public submission period the IMO received submissions from Alinta, Landfill Gas & Power (LGP), and Synergy. The details of the submissions received during the first submission period are summarised below. The full texts of the public submissions are also available on the IMO website.



3.2.1 Submission from Alinta

Alinta agreed with the Rule Change Proposal as it struck an appropriate balance between avoiding the potential for gaming and maximising the availability of SRC providers in the event that SRC is called. However, they noted that the proposed Amending Rules may still prevent some service providers from participating that would not have been available for SRC in any case. For example, a generating facility intending to decommission may defer this if they could meet an SRC requirement, potentially at a far lower cost to other sources. Their lack of future accreditation under the proposed rules would prevent this.

Alinta submitted that while the current proposal was a step in the right direction, future developments in this area should consider enticing other potential sources of SRC while still preventing gaming.

Alinta perceived the Rule Change Proposal as increasing the competitive tension involved in providing SRC and that it therefore would promote achievement of objectives (a) and (d) of the Market Rules. They did not consider the proposal would impede the achievement of any of the other market objectives.

3.2.1.1 The IMO's response to Alinta's submission

In response to the Alinta's suggestion that future developments in this area should consider enticing other potential sources of SRC whilst preventing gaming, the IMO noted that the agreed changes to allow participants committing to installing equipment, which specifically provides additional capacity at Registered Facilities, will go some way towards addressing this consideration. Additionally, the IMO acknowledged Alinta's point that there may be some examples where the proposed rules may still prevent some service providers from participating that would not have been available for SRC in any case. The IMO however perceived that there needed to be a balance between the complexity of the Market Rules and encompassing the majority of situations. The IMO therefore decided not to provide any additional amendments in its draft Amending Rules.

3.2.2 Submission from Landfill Gas and Power

LGP expressed its support for the Rule Change Proposal on the grounds that it permits a generator that has commissioned new capacity, before the date on which the Reserve Capacity obligations commences, to make that capacity available in the event of SRC being required. Further, LGP noted that the proposed change involved safeguards to prevent gaming, where a generator could otherwise cause the need for SRC by withholding its capacity from the intended process and then achieving a higher price by participating in the SRC process.

3.2.3 Submission from Synergy

Synergy expressed its support for the Rule Change Proposal on the grounds that consideration by the SRC Working Group, of which Synergy was the Chair, unanimously endorsed the proposed changes as an appropriate means of ensuring reliability through the Reserve Capacity Mechanism whilst also maintaining economic efficiency. Additionally, it was noted that the exact

wording of this Rule Change was subject to considerable deliberations within the Working Group to ensure that the risks of Market Participants taking advantage of the SRC process by extracting supernormal profits through subverting the standard Reserve Capacity Cycle were mitigated.

Synergy supported the IMO's view that the condition of holding Capacity Credits for future cycles is very necessary in order to prevent Registered Facilities with Capacity Credits in previous Reserve Capacity Cycles from withholding them from the normal capacity credit processes so as to activate the SRC process and benefit from much higher prices.

Synergy stressed that the use of the SRC process has the potential to place a substantial financial burden on Market Customers (retailers) and in turn, on their end-use customers. The original market design contemplated SRC as being a very rare event. Synergy therefore strongly supported clause 4.26.19, which necessitates a review each year, following any call for SRC, to assess the appropriateness of the SRC mechanism and seeks to make improvements for any future application of SRC.

In its submission, Synergy perceived the Rule Change as being urgent due to the imminent commencement of the summer period and the very tight demand/supply balance for capacity. It was Synergy's opinion that it was critical that the Rule Change be expedited.

3.3 Public Forums and Workshops

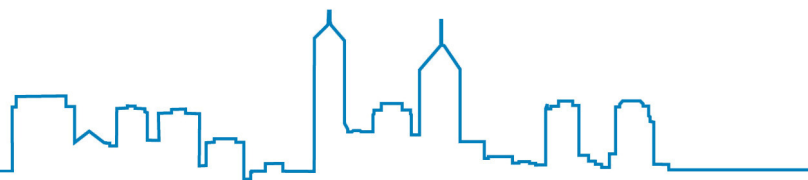
No public forums or workshops were held in relation to this Rule Change. The proposed Rule Change was discussed at the Supplementary Reserve Capacity (SRC) Working Group.

3.3.1 Supplementary Reserve Capacity Working Group

At the SRC Working Group meeting on the 15 September 2008 it was noted that amendments needed to be made to the published Rule Change Proposal in the draft report. The proposed amendment was to include physical equipment, installed specifically to provide additional capacity for the purpose of SRC, to be an additional source of SRC. The group agreed that a Market Participant committing to install equipment to a Registered Facility for the purpose of providing additional capacity should be allowed to participate in a Supplementary Capacity Contract.

At the final meeting of the SRC Working Group on 22 September 2008, changes to the Amending Rules were proposed. In addition, the IMO identified two other minor changes to improve the drafting of the rules. These changes were as follows (~~deleted words~~, added words):

- 4.24.3. The only eligible sources of supplementary capacity are the following services ("**Eligible Services**"):
- (a) load reduction, that is measures to reduce a consumer's consumption of electricity supplied through the SWIS, but excluding reductions associated with the operation



of Registered Facilities (including registered Loads) ~~or~~ and reductions provided by a Market Customer with a Demand Side Programme that does not satisfy its Reserve Capacity Obligations for the current Reserve ~~e~~Capacity Cycle in accordance with clause 4.8.3(d) at the time the IMO seeks to acquire supplementary capacity;

- (b) the generation of electricity by generation systems that are not Registered Facilities;
- (c) the generation of electricity by generation systems, or load reductions provided by loads, that are Registered Facilities but only to extent that the electricity is generated, or the load reduction is provided, by capacity for which the relevant Market Participant, either:
 - (i) does not hold Capacity Credits in the current Reserve Capacity Cycle; and
 - (ii) has not held Capacity Credits in the current Reserve Capacity Cycle or a previous Reserve Capacity Cycle; and
 - (iii) holds Capacity Credits in a subsequent Reserve Capacity Cycle;

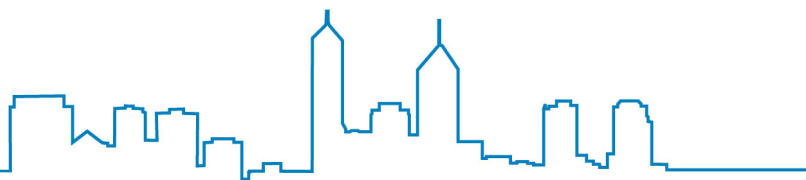
or

 - (iv) provides evidence satisfactory to the IMO, prior to a Supplementary Capacity Contract taking effect, that:
 - 1. costs have been incurred to enable the provision of the capacity through the installation of physical equipment; and
 - 2. the capacity is in addition to the sent out capacity of the generation system, or the maximum amount of load that can be curtailed, that existed prior to the installation of the physical equipment.

4.24.19. Following each call for tenders for supplementary capacity or otherwise acquiring Eligible Services, the IMO must review the Supplementary Reserve Capacity provisions of this section 4.24 of the Market Rules with regard to the Wholesale Market Objectives and must undertake a public consultation process in respect of the outcome of the review.

4. THE IMO'S DRAFT DECISION

The IMO's draft decision was to implement the proposed amendments to clauses 4.24.3 and 4.24.19 as proposed by the IMO and amended during the first submission period. The amendment during the first submission period was as a result of subsequent recommendations from the SRC Working Group and agreed by MAC (as discussed in section 3.1 and section 3.3.1 of this report).



The IMO made its draft decision on the basis that the resulting Amending Rules allowed the Market Rules to better address the Wholesale Market Objectives.

The wording of the relevant Amending Rules is presented in section 7 of this Report.

5. SECOND SUBMISSION PERIOD

Following the Draft Rule Change Report publication on the IMO website, the second submission period was between 24 November 2008 and 19 December 2008. The IMO did not receive any formal submissions during this period.

6. THE IMO'S FINAL ASSESSMENT

In preparing this Final Rule Change Report, the IMO must assess the Rule Change Proposal in light of clauses 2.4.2 and 2.4.3 of the Market Rules. This is outlined in the following sections.

6.1 Market Objectives

According to clause 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 considers that the proposed Amending Rules will have the following impact on how the Market Rules address the Wholesale Market Objectives:

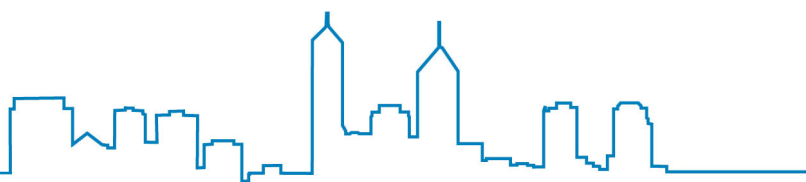
Impact	Wholesale Market Objectives
Allow the Market Rules to better address objective	a
Consistent with objective	b, c, d and e
Inconsistent with objective	-

The IMO's assessment against market objectives (a) 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 proposal supports market objective (a) by ensuring that if SRC is called, sufficient capacity will be available to participate in the process. In its submission Alinta agreed with this statement.

The IMO considers that the proposal is consistent with the remaining market objectives.



6.2 Practicality and cost of implementation

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 do not require any change to the Wholesale Electricity Market Systems operated by the IMO. No other costs have been identified in relation to the implementation of the proposed change.

6.3 Views expressed in submissions

In accordance with Clause 2.4.3(c) of the Market Rules, in deciding whether or not to make Amending Rules, the IMO must have regard to the views expressed in submissions on the Rule Change Proposal.

The proposed changes had the support of all submitters in the first round of consultation. No interested party expressed concerns regarding the amendments to the Market Rules outlined in the Draft Rule Change Report. The IMO therefore considers that both the proposal and the IMO's draft decision have the support of the Participants in the Wholesale Electricity Market.

7. THE IMO'S FINAL DECISION

The IMO's final decision is to implement the amendments to clauses 4.24.3 and 4.24.19 of the Wholesale Electricity Market Rules as outlined in its Draft Rule Change Report.

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

The wording of the Amending Rules is provided in section 8 of this report.

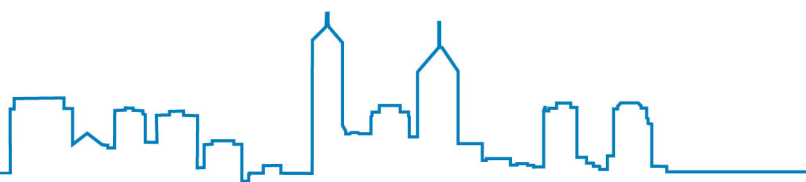
7.1 Amending Rules Commencement

The amendments resulting to the Market Rules resulting from this Rule Change Proposal will commence at 8:00am on 1 February 2009.

8. AMENDING RULES

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

- 4.24.3. The only eligible sources of supplementary capacity are the following services ("**Eligible Services**"):
- (a) load reduction, that is measures to reduce a consumer's consumption of electricity supplied through the SWIS, but excluding reductions associated with the operation



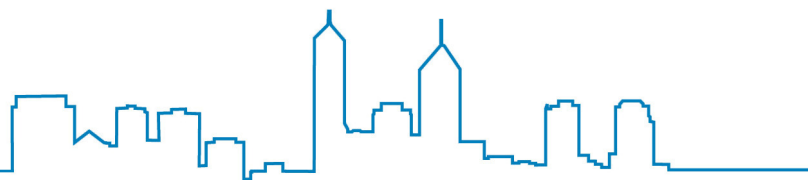
of Registered Facilities (including registered Loads) and reductions provided by a Market Customer with a Demand Side Programme that does not satisfy its Reserve Capacity Obligations for the current Reserve Capacity Cycle in accordance with clause 4.8.3(d) at the time the IMO seeks to acquire supplementary capacity; and

- (b) the generation of electricity by generation systems that are not Registered Facilities;
- (c) the generation of electricity by generation systems, or load reductions provided by loads, that are Registered Facilities but only to extent that the electricity is generated, or the load reduction is provided, by capacity for which the relevant Market Participant, either:
 - (i) does not hold Capacity Credits in the current Reserve Capacity Cycle; and
 - (ii) has not held Capacity Credits in the current Reserve Capacity Cycle or a previous Reserve Capacity Cycle; and
 - (iii) holds Capacity Credits in a subsequent Reserve Capacity Cycle;or
 - (iv) provides evidence satisfactory to the IMO, prior to a Supplementary Capacity Contract taking effect, that:
 1. costs have been incurred to enable the provision of the capacity through the installation of physical equipment; and
 2. the capacity is in addition to the sent out capacity of the generation system, or the maximum amount of load that can be curtailed, that existed prior to the installation of the physical equipment.

4.24.19. Following each call for tenders for supplementary capacity or otherwise acquiring Eligible Services, the IMO must review the Supplementary Reserve Capacity provisions of this section 4.24 of the Market Rules with regard to the Wholesale Market Objectives and must undertake a public consultation process in respect of the outcome of the review.

9. GENERAL INFORMATION ABOUT RULE CHANGE PROPOSALS

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.

