



Draft Rule Change Report Title: Calculation of IRCR

**Ref: RC_2008_32
Standard Rule Change Process**

Date: 16 January 2009

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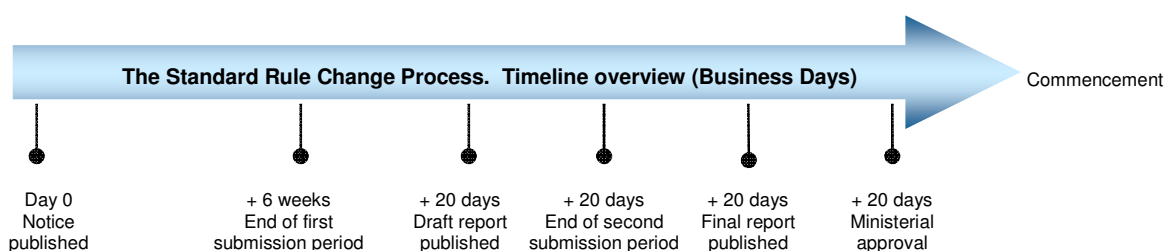
Independent Market Operator

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

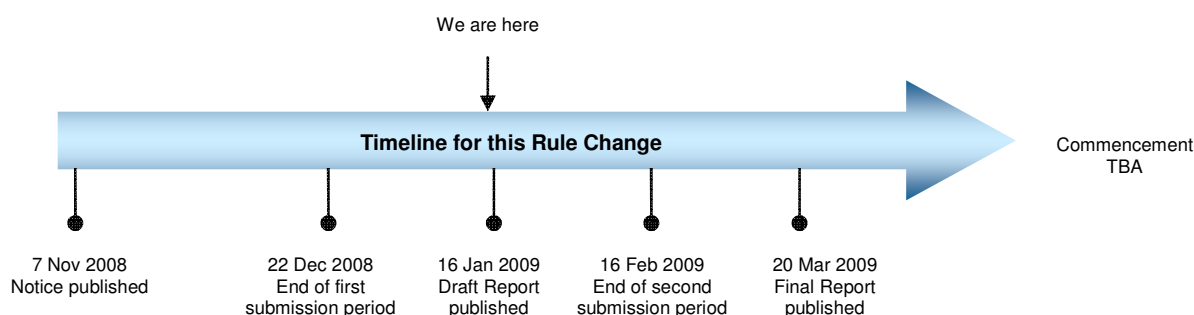
1. INTRODUCTION

On 7 November 2008 the Independent Market Operator (IMO) submitted a Rule Change Proposal regarding changes to clause 8.6.1 and Appendix 5 of the Wholesale Electricity Market Rules (Market Rules).

This 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:



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, the views of the MAC and the submissions received during the first submission period, the IMO's draft decision is to implement the Rule Change Proposal in the form outlined in section 7 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.

2. CALL FOR SECOND ROUND SUBMISSIONS

The IMO invites Market Participants to make submissions on 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 16 February 2009.

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: Manager Market Administration and System Capacity
 PO Box 7096
 Cloisters Square, PERTH, WA 6850
 Fax: (08) 9254 4399

3. THE RULE CHANGE PROPOSAL

3.1 Submission Details

Name:	Allan Dawson
Phone:	+61 8 9254 4300
Fax:	+61 8 9254 4399
Email:	imo@imowa.com.au
Organisation:	Independent Market Operator
Address:	Level 3, Governor Stirling Tower, 197 St George's Terrace
Date submitted:	2 October 2008
Urgency:	High
Change Proposal title:	Calculation of IRCR

3.2 Details of the Proposal

The IMO's Rule Change Proposal comprised amendments to the content of meter data submissions, as set out in clause 8.6.1, and the addition of Step 5A in Appendix 5 to bring about a more equitable treatment of non-interval or accumulation meters and interval meters in the calculation of a retailer's IRCR.

The IMO submitted that a retailer's IRCR is determined by two factors: the contribution of its customer loads to the system peak demands and the size of the Reserve Capacity requirement on the system. Each month a retailer's IRCR (its share of Reserve Capacity) is updated to reflect the new interval meters which have been connected and are serviced by the retailer. However, the Notional Wholesale Meter, which covers all non-interval or accumulation meters, is only updated annually to reflect the increase in the number of these meters. The IMO argued that the disparity in the frequency with which the Notional Wholesale Meter is updated to reflect the addition of new meters compared with how often other retailers' IRCRs are updated is a cause of concern for independent power providers since it adversely affects their share of Reserve Capacity.

As specified under clause 8.6.1, meter data submissions are provided by Metering Data Agents to the IMO on a regular basis. Meter data submissions contain specific information on each meter within the Metering Data Agent's database and on each Trading Interval in a particular Trading Month.

The IMO proposed to add to the information that needs to be provided in the meter data submission to assist the IMO in approximating the monthly growth of the Notional Wholesale Meter. In particular, the IMO proposed to include the number of non-interval or accumulation meters in existence at the end of any one trading month and the difference between the numbers of newly installed and disconnected non-interval meters in any given trading month as extra information within the meter data submission.

The IMO submitted that the inclusion of this information in meter data submissions will enable the IMO to derive the growth of non-interval meters on a monthly basis and thereby estimate the IRCR corresponding to new accumulation meters for a particular Trading Month. The IMO proposed to follow the method outlined in the proposed new Step 5A in Appendix 5 to estimate the growth of the Notional Wholesale Meter. Step 5A introduces a new variable termed 'New Notional Wholesale Meter' which is the key element in calculating an IRCR for all new non-interval meters during a capacity year.

3.3 *The Proposal and the Wholesale Market Objectives*

The IMO's assessment on how these amendments will allow the Market Rules to better address the Wholesale Market Objectives is contained in section 5.1 of this Report.

3.4 *Amending Rules proposed by the IMO*

The amendments to the Market Rules proposed by the IMO are outlined in section 7 of this report.

3.5 *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 the Rule Change Notice on 7 November 2008.

4. FIRST SUBMISSION PERIOD

The first submission period for this Rule Change Proposal was between 10 November 2008 and 22 December 2008.

4.1 *Submissions received*

The IMO received two submissions on the Rule Change Proposal, from Alinta and Landfill Gas and Power (LGP). The details of the submissions received during the first submission period and the outcomes from any discussions of the proposal at public forums and workshops are summarised below. The full text of the public submissions is available on the IMO website.

4.1.1 **Submission from Alinta**

Alinta agrees that the current Market Rules relating to the calculation of IRCR need to be changed. Alinta notes that electricity supply to residential customers occurs almost exclusively via accumulation meters which are serviced by one Market Customer, Synergy. Under the current Market Rules, Synergy's IRCR is adjusted only annually to account for growth in the number of accumulation meters. In contrast, a change in the customer base of other Market Customers, who are able to supply only contestable customers once an interval meter has been installed, is reflected in those Market Customers IRCR on a monthly basis.

Alinta agrees with the IMO's assessment that the proposal supports market objective (b) as it will promote competition by assisting in placing Synergy on a level playing field with other retailers by ensuring that new accumulation meters are treated similarly to interval meters in the calculation of IRCR.

4.1.2 **Submission from Landfill Gas and Power**

LGP supports the proposed Rule Change on the grounds that it more equitably allocates IRCR costs on a monthly basis to the suppliers of new accumulation meters, which are currently excluded from liability until the annual reset.

LGP also supports the IMO's contention that the proposal supports market objective (b).

4.2 **Public Forums and Workshops**

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

5. THE IMO'S ASSESSMENT

In preparing this Draft 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

5.1 **Wholesale 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	b
Consistent with objective	a, c, d, e
Inconsistent with objective	

The IMO's assessment against market objective (b) is as follows:

- (b) *to encourage competition among generators and retailers in the South West interconnected system, including by facilitating efficient entry of new competitors;*

The proposed rule change supports this market objective by promoting competition as it will help place Synergy on a level playing field with other retailers. The proposal will ensure that new accumulation meters entering the Notional Meter are treated similarly to interval meters in the calculation of IRCR.

The IMO considers the proposal to be consistent with the remaining Wholesale Market Objectives.

5.2 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 will require IT system changes. It has been estimated that the associated changes to Wholesale Electricity Market Systems operated by the IMO will cost approximately AUD \$17,000. The proposed rule change may also require system development by the Metering Data Agent (MDA). The MDA has not provided any quantification of these costs to the IMO.

Both the IMO and the Market Advisory Committee have found the identified costs to be acceptable as the adverse outcome with the current Market Rules has been estimated to be \$50,000 annually. No other costs have been identified in relation to the implementation of the proposed changes.

5.3 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.

All parties responding to the IMO's invitation for submissions expressed support for the Rule Change Proposal.

5.4 Market Advisory Committee

In accordance with Clause 2.4.3(d) of the Market Rules, in deciding whether or not to make Amending Rules, the IMO must have regard to the views expressed by the Market Advisory Committee (MAC), where the MAC met to consider the Rule Change Proposal.

The MAC first discussed the proposed rule change at its meeting on 10 September 2008. At the meeting, the IMO tabled analysis on the estimated impact of the proposal on the total 'non-Synergy' market. It was acknowledged that the potential rule change would require changes to the IT systems operated by the IMO. The MAC requested that the potential rule change be amended to include these costs and presented to the MAC for consideration at its October meeting.

At the MAC meeting in October 2008, the IMO advised that it would cost approximately \$17,000 to carry out the system changes required as a result of the implementation of the rule change. After discussing the merits of the cost, the majority of MAC members

agreed that a one-off payment of \$17,000 to eliminate an inefficiency resulting in costs amounting to an estimated \$50,000 per annum was in the best interests of the market. Following this discussion, MAC members agreed to progress the proposed rule change.

6. THE IMO'S DRAFT DECISION

The IMO's draft decision is to implement the proposed amendments to clause 8.6.1 and Appendix 5 of the Wholesale Electricity Market Rules as proposed in its Rule Change Proposal.

6.1 *Reasons for the decision*

The IMO has made its decision on the following basis:

- The Amending Rules:
 - Will allow the Market Rules to better address the Wholesale Market Objective (b);
 - Are consistent with the remaining Wholesale Market Objectives;
 - Have the support of both the MAC and all participants providing submissions.
- The identified costs associated with implementation of the Rule Change Proposal are acceptable, as the adverse outcome with the current Market Rules has been estimated to be \$50,000 annually.

Additional detail outlining the analysis behind the IMO's reasons is outlined in section 5 of this Draft Rule Change Report.

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

7. PROPOSED AMENDING RULES

The IMO proposes to implement the following amendments to the Market Rules (added words are underlined and deletions are shown with a ~~strike through~~):

- 8.6.1. A meter data submission must comprise:
- (a) the identity of the Metering Data Agent;
 - (b) the Trading Month to which the meter data relates;
 - (c) for each interval meter and each Trading Interval in the Trading Month described in (b):
 - i. the identity of the meter;
 - ii. the MWh quantity measured by the meter; and
 - iii. whether the quantity described in (ii) is based on an actual meter reading or an estimate, and if based on an estimate, the applicable code describing the reason for the estimate;

- (d) [Blank]; and
- (e) Meter adjustments that stem from actual meter data becoming available or from the resolution of a dispute concerning meter data (“**meter dispute**”) in accordance with the dispute resolution process in the applicable Metering Protocol, including:
 - i. For each interval meter and each Trading Interval in the calendar month to which a meter dispute has resulted in changes to meter data:
 - 1. the MWh quantity for that meter;
 - 2. whether the quantity described in paragraph (1) is based on an actual meter reading or an estimate, and if based on an estimate, the applicable code describing the reason for the estimate; and
 - 3. the applicable code describing the reasons for the change in the MWh quantity relative to the previously stated value.
- (f) the number of non-interval or accumulation meters that existed at the end of the Trading Month to which the meter data relates;
- (g) the number of new non-interval or accumulation meters connected during the Trading Month to which the meter data relates; and
- (h) the number of non-interval or accumulation meters abolished during the Trading Month to which the meter data relates.

Appendix 5: Individual Reserve Capacity Requirements

This Appendix presents the method for annually setting and monthly adjusting Individual Reserve Capacity Requirements.

For the purpose of this Appendix:

- Steps 1 to 10 are repeated every month.
- All references, apart from those in Step 5A, to meters are interval meters.
- The Notional Wholesale Meter is to be treated as a registered interval meter measuring Temperature Dependent Load. This meter is denoted by Temperature Dependent Load meter $v=v^*$.
- The New Notional Wholesale Meter, determined in accordance with Step 5A, is to be treated as a registered interval meter measuring Temperature Dependent Load.

- The meter registration data to be used in the calculations is to be the most current complete set of meter registration data as at the time of commencing the calculations.
- The values of RR (the Reserve Capacity Requirement) and FL (forecast peak demand associated with that Reserve Capacity Requirement as specified in clause 4.6.2) may be modified from their standard values in accordance with clause 4.28.11A.
- In the case of the first Reserve Capacity Cycle, the IMO may use meter data relating to periods prior to Energy Market Commencement as if the energy market had commenced prior to the time periods covered by that meter data.

.....

STEP 5A: When determining the Individual Reserve Capacity Requirements for Trading Month n.

Find the MW figure formed by doubling the median value of the metered consumption for the Notional Wholesale Meter v^* , during the 4 Peak SWIS Trading Intervals of Trading Month n-3 (“Median Notional Wholesale Meter”).

Divide the Median Notional Wholesale Meter by the number of non-interval or accumulation meters that existed at the end of Trading Month n-3 (“Average Non-Interval Meter”).

Subtract the number of non-interval or accumulation meters disconnected during Trading Month n-3 from the number of non-interval or accumulation meters connected during Trading Month n-3 (“Non-Interval Meter Growth”).

Multiply the Non-Interval Meter Growth and the Average Non-Interval Meter. (“New Notional Wholesale Meter”)

For the New Notional Wholesale Meter set $NMTDCR(v)$ equal to be 1.3 times the New Notional Wholesale Meter.

<balance of appendix 5 not changed>

8. 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.