



Draft Rule Change Report
Title: Reserve Capacity Performance
Monitoring

Ref: RC_2009_19
Standard Rule Change Process

Date: 21 August 2009

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Independent Market Operator

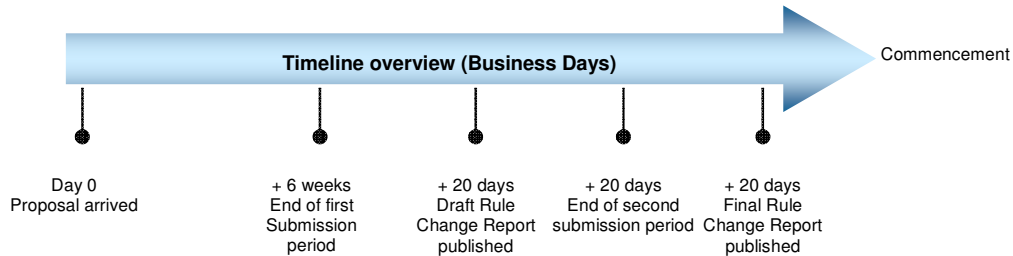
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1. INTRODUCTION

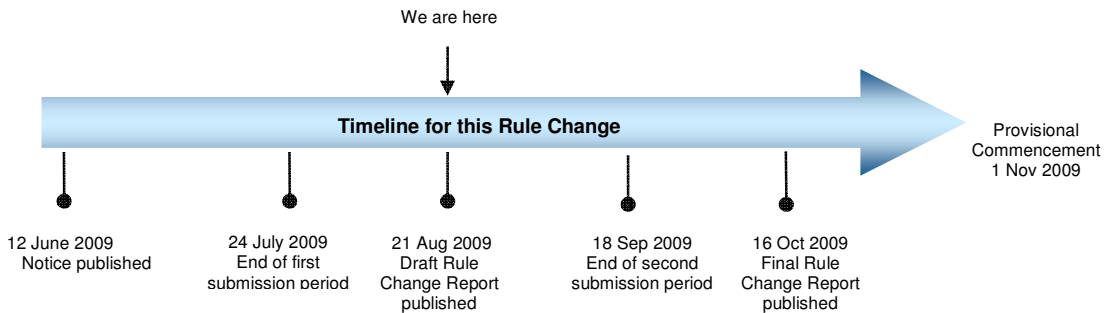
On 11 June 2009, the Independent Market Operator (IMO) submitted a Rule Change Proposal regarding the amendment of clause 4.27.2 of the Wholesale Electricity Market Rules (Market Rules).

This Rule Change 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 Draft Rule Change Report are:



Please note that the Commencement Date is provisional and may be subject to change in the Final Rule Change Report.

The IMO's draft decision is to accept the Rule Change Proposal in the form outlined in section 7 of this Report. The detailed reasons for the IMO's decision are set out in section 5 of this report.

In making its draft decision the IMO has taken into account:

- the Wholesale Market Objectives;
- the practicality and cost of implementing the proposal;
- the views of the Market Advisory Committee (MAC); and
- the submissions received.

All documents related to this Rule Change Proposal can be found on the IMO website: <http://www.imowa.com.au/n244.html>

2. CALL FOR SECOND ROUND SUBMISSIONS

The IMO invites interested stakeholders 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 5:00pm, **Friday 18 September 2009**.

The IMO prefers to receive submissions by email to: market.development@imowa.com.au using the submission form available on the IMO website: <http://www.imowa.com.au/rule-changes>

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

Independent Market Operator
 Attn: Manager Market Development 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: | Neil Hay |
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| Address: | Level 3, 197 St Georges Tce, Perth, WA 6000 |
| Date submitted: | 11 June 2009 |
| Urgency: | Standard Rule Change Process |
| Change Proposal title: | Reserve Capacity Refund Performance Monitoring |
| Market Rule(s) affected: | 4.27.2 |

3.2 Summary Details of the Proposal

Clause 4.27.2 of the Market Rules requires the IMO to assess the number of days in the preceding 12 calendar months where the total available capacity in the system dropped below certain levels. There are currently difficulties with undertaking this assessment by the fifth Business Day of the month, as prescribed in the Market Rules. The difficulties arise as one of the inputs to the assessment calculation process is the outage data supplied by System Management under clause 7.13.1A(b).

The objective of this Rule Change Proposal is to correct the order of the steps in the information process for this performance assessment and to provide the IMO with sufficient time after receipt of the outage information from System Management (15 Business Days after the last Trading Day) to carry out its assessment under clause 4.27.2.

The detailed information on the proposal is contained in Appendix 1 and can be found in the Rule Change Proposal contained on the IMO's website.

3.3 The Proposal and the Wholesale Market Objectives

In its Rule Change Proposal, the IMO submitted that it considered that the proposed Amending Rules will allow it to comply with the Market Rules regarding the performance assessment of the Reserve Capacity Mechanism. The IMO considered that this improves the integrity of the Market Rules, and therefore is consistent with the operation of the Wholesale Market Objectives.

3.4 Amending Rules proposed by the IMO

The amendments to the Market Rules originally proposed by the IMO are provided 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.

4. FIRST SUBMISSION PERIOD

The first submission period for this Rule Change Proposal was between 15 June 2009 and 24 July 2009.

4.1 Submissions received

The IMO received submissions from Landfill Gas & Power (LGP) and Perth Energy. The submissions are summarised below, and the full text is available on the IMO website.

4.1.1 Submission from LGP

LGP supports the Rule Change Proposal on the grounds that it corrects a manifest error whereby the IMO is required to perform an assessment before it obtains the necessary data for it. LGP contends that the proposed changes enhance the integrity of the rules and is thereby consistent with all the objectives.

4.1.2 Submission from Perth Energy

Perth Energy supports the Rule Change Proposal. Perth Energy considers that the Rule Change Proposal is consistent with the market objectives, noting that it is much better to have a realistic timeframe in the Market Rules.

4.2 Public Forums and Workshops

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

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.

Market Rule 2.4.2 outlines that 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”*.

Additionally, clause 2.4.3 states, when deciding whether to make Amending Rules, the IMO must have regard to the following:

- Any applicable policy direction from the Minister regarding the development of the market;
- The practicality and cost of implementing the proposal;
- The views expressed in submissions and by the MAC; and
- Any technical studies that the IMO considers necessary to assist in assessing the Rule Change Proposal.

The IMO notes that there has not been any applicable policy direction from the Minister in respect of this Rule Change Proposal.

This IMO's assessment is outlined in the following sections.

5.1 Wholesale Market Objectives

The IMO considers that the Market Rules as a whole, if amended, will be consistent with the Wholesale Market Objectives.

| Wholesale Market Objective | Consistent with objective |
|---|----------------------------------|
| (a) to promote the economically efficient, safe and reliable production and supply of electricity and electricity related services in the South West interconnected system | Yes |
| (b) to encourage competition among generators and retailers in the South West interconnected system, including by facilitating efficient entry of new competitors | Yes |
| (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 | Yes |
| (d) to minimise the long-term cost of electricity supplied to customers from the South West interconnected system | Yes |
| (e) to encourage the taking of measures to manage the amount of electricity used and when it is used | Yes |

The IMO considers that the proposed Amending Rules proposed Amending Rules will allow the IMO to comply with the Market Rules regarding the performance assessment of the Reserve Capacity Mechanism. The IMO considers that this improves the integrity of the Market Rules, and therefore is consistent with the operation of the Wholesale Market Objectives.

5.2 Practicality and Cost of Implementation

The proposed changes do not require any change to the Wholesale Electricity Market Systems operated by the IMO.

There have been no additional costs identified with the implementation of this Rule Change Proposal.

5.3 Views expressed in submissions

Both submissions received during the first submission period supported the proposed rule change.

5.4 Market Advisory Committee

The MAC was advised of the proposed rule change at its meeting on 10 June 2009. At this meeting the MAC unanimously agreed to progress this Rule Change Proposal.

6. THE IMO'S DRAFT DECISION

The IMO's draft decision is to accept the proposed amendment to clause 4.26.1 of the Wholesale Electricity Market Rules as proposed in the Rule Change Proposal.

6.1 Reasons for the decision

The IMO has made its decision on the following basis. The Amending Rules:

- are consistent with the Wholesale Market Objectives;
- have no identified costs associated with implementation;
- have the support of the MAC; and
- have the support of the submissions received during the first submission period.

Additional detail outlining the analysis behind the IMO's reason is outlined in Section 5 of this report.

7. PROPOSED AMENDING RULES

The IMO proposes to implement the following amendments to the Market Rules (added text, ~~deleted text~~):

- 4.27.2 By the twenty fifth-Business Day ~~day~~ of each month, the IMO must assess the number of days in the preceding 12 calendar months where the total available capacity in the SWIS dropped below 80% (during the Hot Season), and 70% (in either the Intermediate Season or Cold Season), of the total Capacity Credits held by Market Participants for more than six hours on the day.

APPENDIX 1: FULL DETAILS OF THE PROPOSAL

Background

Clause 4.27.2 of the Market Rules requires the IMO to assess the number of days in the preceding 12 calendar months where the total available capacity in the system dropped below certain levels.

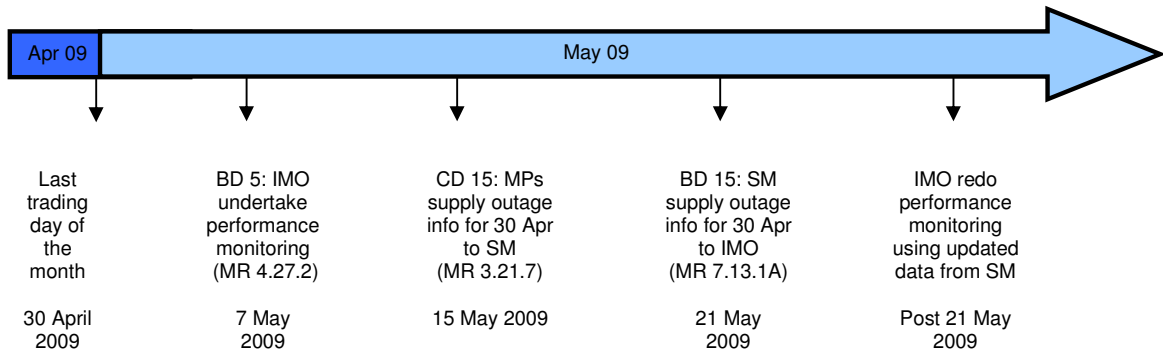
The IMO calculates this by determining the number of days in the previous month where the capacity dropped below either 70% or 80% of the total credits (season dependent). This number is then added on to the running total for the last 12 calendar months minus the number of days from the corresponding calendar month of the previous year.

The IMO contends that there are currently difficulties with undertaking this assessment by the fifth Business Day of the month, as prescribed in the Market Rules. The difficulties arise as one of the inputs to the assessment calculation process is the outage data supplied by System Management under clause 7.13.1A(b). This data is provided on a rolling daily basis, on the fifteenth Business Day following the day on which the relevant Trading Day ends. Therefore information for the last Trading Day of the month is not available until midday on the fifteenth Business Day.

The IMO currently reruns the assessment required by clause 4.27.2 after the outage information has been supplied by System Management to ensure the correct assessment is carried out. The IMO contends that this is inconsistent with the Market Rules.

Current Timeline:

Market Rule 3.21.7 gives the Market Participant fifteen calendar days after the Trading Day to supply outage information to System Management. Clause 7.13.1A(b) allows System Management up to 15 Business Days (also from the Trading Day) to prepare and supply the outage information required for Reserve Capacity monitoring to the IMO, see the diagram below.



Proposal

The objective of this Rule Change Proposal is to correct the order of the steps in the information process for the assessment of the performance of the Reserve Capacity Mechanism and to provide the IMO with sufficient time after receipt of the outage information from System Management (15 Business Days after the last Trading Day) to carry out its assessment under clause 4.27.2.

The IMO proposes that clause 4.27.2 be modified so that the assessment is required to be complete by the twenty fifth calendar day of the month rather than five Business Days as it is currently drafted. This proposal is shown in the diagram below.

Proposed Timeline:

