

The background of the lower half of the page is a photograph of a wind farm and power lines, overlaid with a semi-transparent blue filter. On the left, several white wind turbines are visible, with their blades extending outwards. On the right, a tall, lattice-structured power transmission tower stands prominently. The overall scene is set against a clear sky and a hilly landscape.

**Independent Market Operator**

**Final Rule Change Report:  
System Management Review  
Period Budget Coverage  
Amendment**

**Ref: RC\_2009\_23**

**Date: 30 October 2009**

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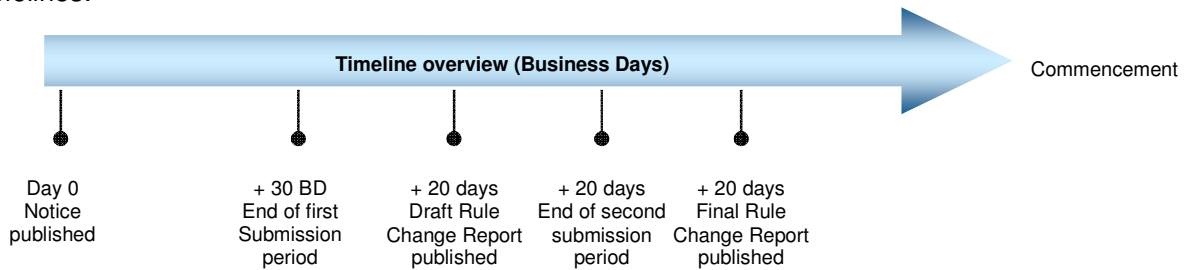
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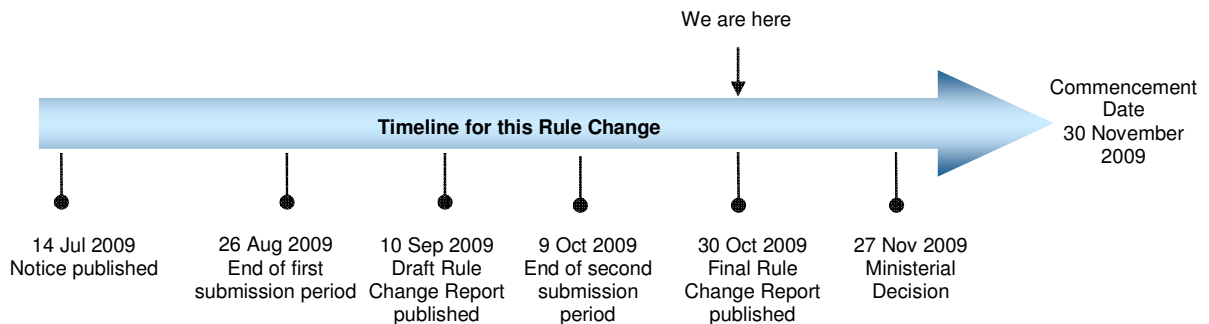
## 1. INTRODUCTION

On 15 July 2009 the Economic Regulation Authority (ERA) submitted a Rule Change Proposal regarding the addition of clause 3.13.3A and the amendment of clauses 2.23.1, 2.23.2, 2.23.3, 2.23.5, 2.23.7, 2.23.12, 3.11.11, 3.11.14, 3.13.1, 3.13.3, and 3.22.1 to the Wholesale Electricity Market Rules (Market Rules).

This Rule Change 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 below:



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

In making its final decision on the Rule Change Proposal, 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);
- the results of the technical review procured; and
- the submissions received.

All documents related to this Rule Change Proposal can be found on the IMO website: [http://www.imowa.com.au/RC\\_2009\\_23](http://www.imowa.com.au/RC_2009_23)

## 2. THE RULE CHANGE PROPOSAL

### 2.1 Submission Details

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<b>Date submitted:</b>	15 July 2009
<b>Urgency:</b>	Standard Rule Change Process
<b>Change Proposal title:</b>	System Management Review Period Budget Coverage Amendment
<b>Market Rule(s) affected:</b>	2.23.1, 2.23.2, 2.23.3, 2.23.5, 2.23.7, 2.23.12, 3.11.11, 3.11.14, 3.13.1, 3.13.3, 3.13.3A (new), 3.13.3B (new), 3.13.3C (new) and 3.22.1.

### 2.2 Summary Details of the Proposal

This Rule Change Proposal seeks to remove the requirement for System Management to propose an Ancillary Services budget for the relevant three-yearly Review Period. This will in effect leave System Management with the requirement to propose a budget to cover its system operation services only.

This Rule Change Proposal also proposes to amend the Market Rules to state that the IMO is responsible for proposing the Margin\_Peak and Margin\_Off-Peak parameters and System Management is responsible for proposing the Cost\_LR parameter.

Full details of the proposal can be found in appendix 1 of this report and in the Rule Change Proposal and associated notice on the IMO website.

### 2.3 The Proposal and the Wholesale Market Objectives

In its proposal the ERA submitted that it considered that this Rule Change Proposal will remove the ambiguities regarding Ancillary Services in relation to System Management budget review and the responsibilities for setting the payment parameters. This improves the integrity of the Market Rules and therefore is consistent with the operation of the Wholesale Market Objectives.

### 2.4 The Amending Rules Proposed by the ERA

The Amending Rules proposed by the ERA can be found in appendix 2 of this report.

### 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.

### **3. FIRST SUBMISSION PERIOD**

The first submission period for this Rule Change Proposal was between 16 July 2009 and 26 August 2009.

#### **3.1 Submissions received**

The IMO received submissions on the Rule Change Proposal from Landfill Gas & Power (LGP) and System Management during the first submission period. The submissions are summarised below, and the full text is available on the IMO website.

##### **3.1.1 Submission from Landfill Gas & Power**

LGP supported the Rule Change Proposal, as the cost of Ancillary Services is a market cost and System Management's budget should cover only system operation services. Furthermore, LGP contends that as long as the affected parties are satisfied with the changes and have timely access to the necessary information, it is immaterial whether the IMO or System Management calculates the referenced parameters.

LGP also agreed with the ERA's contention that this Rule Change Proposal will remove the ambiguities regarding Ancillary Services in relation to System Management's budget review and the responsibilities for setting the payment parameters, thereby improving the integrity of the Market Rules.

##### **3.1.2 Submission from System Management**

System Management supported the general intent of the ERA's proposed rule change.

System Management noted that the proposed Amending Rules provide that Cost\_LR is to be proposed by System Management once every three years. System Management stated that it is appropriate that System Management submits the proposed values, given that it is the contracting party for such services.

However, System Management stated in its submission that the Rule Change Proposal does not appear to make provision for Cost\_LR values to be adjusted in the event that the costs of providing Ancillary Services are revised mid-period.

System Management noted that it has raised this issue with both the ERA and the IMO. There was support from the IMO and ERA to incorporate an adjustment mechanism within the Rule Change Proposal to cater for the need to adjust Cost\_LR values within the Review Period.

System Management noted that the IMO drafted such an adjustment mechanism and may raise this in the Draft Rule Change Report. The adjustment mechanism included by the IMO is understood to contain the following provision when System Management proposes revised Cost\_LR values:

*The Economic Regulation Authority may undertake a public consultation process, which may include publishing an issues paper and may issue an invitation for public submission.*

System Management contended that guidance should be provided around the exercise of the ERA's discretion as to whether a public consultation process is required on revised Cost\_LR values. System Management proposes that the factors ERA could have regard to are:

- the materiality of the variation of the Cost\_LR value;
- the length of any new contract's intended operation; and
- the need to expedite the approval process.

System Management posited that these factors create transparency, a level of guidance, and certainty around factors the ERA will consider in deciding whether a public consultation process is necessary. System Management submits that the ERA should welcome additional transparency within the market framework.

### **3.2 Public Forums and Workshops**

No public forums or workshops were held in relation to this proposed rule change.

### **3.3 Technical Review**

As the Rule Change Proposal is proposing to add additional functions for the IMO to undertake, the IMO considered that it would be prudent to obtain external advice as to whether the IMO is the most appropriate party to undertake this role. The IMO did not receive this advice in time for inclusion in its Draft Rule Change Report. The IMO has outlined the results of the technical review in section 7.6 of this paper.

### **3.4 Further Discussion and Analysis**

#### *During the first submission period*

As noted in the submission received from System Management, the IMO held discussions with System Management and the ERA during the first submission period to discuss modifying the Amending Rules such that Cost\_LR can be revised within the three year Review Period.

During those discussions, the IMO drafted a proposed modification of the Amending Rules to allow for annual adjustments to Cost\_LR by System Management during a Review Period, should it be required. The modification would provide the ERA with the discretion to determine if a public consultation process is required for a revised Cost\_LR value.

#### *After the first submission period*

Following the first submission period, the IMO held further discussions with both System Management and the ERA. The discussions focused on System Management's view of providing guidelines for the ERA in its decision of whether or not to undertake a public consultation process when Cost\_LR values are revised.

System Management contended that the Amending Rules need to provide guidelines for transparency, guidance and certainty to the ERA for undertaking a public consultation process for the revision of Cost\_LR values.

In response to System Management's first submission, the ERA contended that, in order to apply a consistent approach to decision making, it needs to consider all relevant factors which led to System Management proposing revised Cost\_LR values within a Review Period.

The ERA considered that its discretion to carry out public consultations for revised Cost\_LR should be guided by the Wholesale Market Objectives. Furthermore, where the ERA exercises this discretion, the decision not to conduct a public consultation process should be clearly articulated in the ERA's determination.

The IMO agreed that the Amending Rules need to be modified to allow for the revision of Cost\_LR values within the three year Review Period, but that the discretion for public consultation should not be limited to the list suggested in System Management's submission. The IMO considered that the ERA can provide transparency for:

- conducting a public consultation by publishing an issues paper; and
- not conducting a public consultation by publishing the reasons behind the ERA's decision.

The IMO considered that a prescriptive list of factors for undertaking a public consultation process might not take into consideration all relevant issues and may be counter-productive. Additionally, the IMO considered that the ERA would take a pragmatic approach in deciding whether or not to hold a public consultation, and would do so only if there were relevant issues that require additional input from interested stakeholders.

The IMO agreed with the ERA that it should take into account the Wholesale Market Objectives when deciding whether a public consultation is required for revised Cost\_LR values. This framework will ensure that additional guidance and certainty is provided to the ERA in its decision. Moreover, to ensure consistency, the Wholesale Market Objectives should also provide guidance for the ERA's determination of Cost\_LR and margin values.

### **3.5 Additional Amendments to Amending Rules**

Following the discussions with System Management and the ERA, the IMO considered that further changes to the proposed Amending Rules were required to allow for an annual adjustment to Cost\_LR by System Management during a Review Period, should it be required.

The additional amendments to the Amending Rules, as proposed in the IMO's Draft Rule Change Report, are contained in Appendix Three of this paper.

## **4. THE IMO'S DRAFT ASSESSMENT**

The IMO's draft assessment, as contained in the Draft Rule Change Report, is available on the IMO's website.



## 5. THE IMO'S DRAFT DECISION

Based on the matters set out in the Draft Rule Change Report, the IMO's draft decision, in accordance with clause 2.7.7(f), was to accept the proposed addition of clauses 3.13.3A, 3.13.3B and 3.13.3C, and the amendment of clauses 2.23.1, 2.23.2, 2.23.3, 2.23.5, 2.23.7, 2.23.12, 3.11.11, 3.11.14, 3.13.1, 3.13.3, and 3.22.1 of the Market Rules as proposed in the Rule Change Proposal and amended following the first submission period.

The IMO made its decision on the following basis:

- The Amending Rules:
  - will allow the Market Rules to better address the Wholesale Market Objective (a);
  - are consistent with the remaining Wholesale Market Objectives; and
  - have minor costs associated with implementation.

## 6. SECOND SUBMISSION PERIOD

Following the publication of the Draft Rule Change Report on the IMO website, the second submission period was between 11 September 2009 and 9 October 2009.

### 6.1 Submissions received

The IMO received a submission on the Rule Change Proposal from LGP during the second submission period. The submission is summarised below, and the full text is available on the IMO website.

#### 6.1.1 Submission from Landfill Gas & Power

LGP supports the IMO's draft decision to implement an amended Rule Change to allow for the revision of Cost\_LR values within the three year review Period and to provide the stated guidance to the ERA for undertaking a public consultation process for the revision.

## 7. THE IMO'S FINAL ASSESSMENT

In preparing its 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.

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 has procured 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.

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

### 7.1 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

Further, the IMO considers that the Market Rules if amended would not only be consistent with the Wholesale Market Objectives but also allow the Market Rules to better address the Wholesale Market Objectives:

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

The IMO's assessment against market objective (a) 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 proposed changes promote the economically efficient supply of electricity and electricity related services in the SWIS. The changes will enable the IMO and System Management to independently propose figures to the ERA for the Margin\_Peak, Margin\_Off-peak and Cost\_LR parameters. The ERA is then able to assess and determine Cost\_LR and margin values in line with Wholesale Market Objectives.

Furthermore, the IMO considers that the proposed changes remove ambiguity regarding System Management's budget review and the determination of Cost\_LR. It also improves clarity on the responsibility for setting of payment parameters for Ancillary Services. The IMO considers that this improves the integrity of the Market Rules.

## **7.2 Practicality and cost of implementation**

### Cost:

The proposed changes may require a change to the Settlement System operated by the IMO as a result of splitting Cost\_LRD into two inputs (clause 3.22.1(g)).

The IMO estimates the cost of these changes to the Wholesale Electricity Market Systems will be \$5,000.

The IMO will incur some additional consultancy costs in proposing the Margin\_Peak and Margin\_Off-Peak parameters for each Review Period. This is expected to be in the range of \$30,000 - \$50,000 per Review Period.

### Practicality:

Currently the Market Rules do not provide clear guidance as to who should propose the Margin\_Peak and Margin\_Off-Peak and Cost\_LR parameters. The IMO considers that to allow for economically efficient outcomes the Market Rules should ensure that the most appropriate organisation undertake these roles.

It is practical that System Management propose the Cost\_LR parameter, at it is the responsible party for the contracts that will make up this parameter. Additionally, on the basis of the advice received as part of the technical review (outlined in section 7.5 of this paper) it is considered that the IMO is the most appropriate body to propose the Margin\_Peak and Margin\_Off-Peak parameters. This will allow the ERA to independently assess and determine the Cost\_LR and margin values in line with Wholesale Market Objectives, which is consistent with the ERA's role in other areas of the Market Rules.

## **7.3 Views expressed in submissions**

The Amending Rules proposed by the ERA had the support of all parties who made submissions during the first submission period, albeit with some additions to what was already proposed. System Management contended that the rule change should provide for:

- a mid-period revision of Cost\_LR values; and
- guidance on when the ERA can call for public consultation on any Cost\_LR values when mid-period revision takes place.

These suggestions were taken into account and amendments were made following the first submission period.

The Amending Rules as proposed by the ERA and amended by the IMO following the first submission period had the support of the submission received during the second submission period.

#### **7.4 Market Advisory Committee**

The MAC was advised of the proposed rule change at its meeting on 10 June 2009. The MAC provided support for the ERA to progress this Rule Change Proposal.

#### **7.5 Technical Review**

As the Rule Change Proposal is proposing to add additional functions for the IMO to undertake, the IMO considered that it would be prudent to obtain external advice as to whether the IMO is the most appropriate party to undertake this role. Tenet Consulting was therefore engaged by the IMO to undertake a review of the appropriateness of the amendments to the IMO's functions outlined in the Draft Rule Change Report.

Tenet Consulting consider that it is appropriate for the IMO to assume the responsibility, for each Review Period, of proposing to the ERA the reserve availability payment margin applying for Peak and Off-Peak Trading Intervals.

Tenet Consulting agrees with the IMO's determination in the Draft Rule Change Report that the amendment is consistent with the Wholesale Market Objectives and facilitates the Market Rules in better addressing these objectives. Tenet Consulting also notes that there appear to be minimal additional costs involved in adopting the proposed amendments.

#### **7.6 Further Analysis**

Following the publication of the Draft Rule Change Report the IMO, System Management and the ERA held additional discussions on whether the Amending Rules should provide a detailed framework to guide the ERA on calling for public consultations for the mid-period revisions of Cost\_LR.

As outlined in section 3.4, the IMO considered that a prescriptive list of factors for undertaking a public consultation process might not take into consideration all relevant issues and may be counter-productive. Additionally, the IMO considered that the ERA would take a pragmatic approach in deciding whether or not to hold a public consultation, and would do so only if there were relevant issues that require additional input from interested stakeholders.

The IMO has also researched regulatory environments in other jurisdictions, to understand if regulatory bodies with similar functions to the ERA's are required to consider prescriptive guidance before calling for a public consultation.

The IMO surveyed the following regulatory bodies:

<b>Regulatory Body</b>	<b>Jurisdiction</b>
Essential Services Commission (Victoria)	Victoria
NSW Independent Pricing and Regulatory Tribunal	New South Wales
Queensland Competition Authority	Queensland
Australian Competition and Consumer Commission	Australia
Australian Energy Market Commission	All states except WA and NT
Essential Services Commission (South Australia)	South Australia
Office of Tasmanian Electricity Regulator	Tasmania

The evidence suggests that other regulatory bodies are not required to consider a prescriptive list of guiding rules before calling for a public consultation. The details of this research can be found in appendix 3.

Following the additional discussions, the IMO, ERA and System Management agreed that further amendments outlining a list of factors that the ERA must take into consideration for consultation were not necessary.

## **8. THE IMO'S FINAL DECISION**

The IMO's final decision is to accept the addition of clauses 3.13.3A, 3.13.3B and 3.13.3C, and the amendment of clauses 2.23.1, 2.23.2, 2.23.3, 2.23.5, 2.23.7, 2.23.12, 3.11.11, 3.11.14, 3.13.1, 3.13.3, and 3.22.1 of the Market Rules as proposed in the Rule Change Proposal and amended following the first submission period.

### **8.1 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 Wholesale Market Objective (a);
  - are consistent with the remaining Wholesale Market Objectives;
  - have the support of the MAC and the submitting parties;
  - have the support of the technical review; and
  - have minor costs associated with implementation.

Additional detail outlining the analysis behind the IMO's reasons is outlined in section 7 of this Final Rule Change Report.

## 9. AMENDING RULES

### 9.1 Commencement

The amendments to the Market Rules resulting from this Rule Change Proposal will commence at **8:00am** on **30 November 2009**.

### 9.2 Amending Rules

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

- 2.23.1. For the purposes of this clause 2.23, the services provided by System Management are:
- (a) system operation services, including all of System Management's functions and obligations under these Market Rules, ~~except the provision of Ancillary Services; and~~
  - (b) ~~System Management's functions and obligations under these Market Rules in relation to the provision of Ancillary Services.~~
- 2.23.2. For each year until the process referred to in clause 2.23.3 to 2.23.10 applies, the Shareholding Minister must determine the budget of System Management for ~~each of~~ the services described in clause 2.23.1.
- 2.23.3. For each Review Period, System Management must seek the approval of its Allowable Revenue from the Economic Regulation Authority in accordance with the following:
- ...
- (c) by 31 March of the year in which the Review Period commences, the Economic Regulation Authority must determine the Allowable Revenue of System Management for the Review Period for ~~each of~~ the services described in clause 2.23.1.
- 2.23.5. Following the first determination of the Allowable Revenue of System Management by the Economic Regulation Authority in accordance with clause 2.23.3, by 30 April each year System Management must prepare a budget proposal for ~~each of~~ the services described in clause 2.23.1 for the coming Financial Year.
- 2.23.7. Where the revenue earned for a service described in clause 2.23.1 via System Operation Fees ~~or Ancillary Service payments~~ in the previous Financial Year is greater than or less than System Management's expenditure for that Financial Year, the current year's budget must take this into account by decreasing the budgeted revenue by the amount of the surplus or adding to the budgeted revenue the amount of any shortfall, as the case may be.

2.23.12. The Economic Regulation Authority must take the following into account when determining the Allowable Revenue of System Management:

...

- (b) the Allowable Revenue must include only costs which would be incurred by a prudent provider of the services described in clause 2.23.1, acting efficiently, in accordance with good electricity industry practice, seeking to achieve the lowest practicably sustainable cost of delivering the services described in clause 2.23.1 in accordance with these Market Rules, while effectively promoting the Wholesale Market Objectives; and
- (c) where possible, the Economic Regulation Authority should benchmark the Allowable Revenue against the costs of providing similar services in other jurisdictions; and
- ~~(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 Ancillary Services, but does not take into account the costs for providing Dispatch Support Ancillary Services.~~

- (e) ~~the determination of the Allowable Revenue of Ancillary Service provision must take into account Ancillary Service Contracts that System Management has entered into.~~
- 3.11.11. By 1 June each year, System Management must submit to the IMO a report containing information on:
- ...
- (b) the total cost of each of the categories of Ancillary Services provided, including Ancillary Services provided under Ancillary Service Contracts, in the preceding year; and
- (c) the Ancillary Service Requirements for the coming year and the Ancillary Services plan to meet those requirements; ~~and~~
- (d) ~~the budget approved in accordance with clause 2.23 for providing Ancillary Services for the coming year.~~
- 3.11.14 System Management must document in the Power System Operating Procedure the procedure to be followed, and must follow that documented Market Procedure, when:
- ...
- (a) determining Ancillary Service Requirements; and
- (b) entering into Ancillary Services Contracts, including the process for conducting competitive tender processes utilised for the awarding of Ancillary Services Contracts; ~~and~~
- (c) ~~preparing budget proposals for providing Ancillary Services.~~
- 3.13.1. The total payments by the IMO on behalf of System Management for Ancillary Services in accordance with Chapter 9 comprise:
- ...
- (c) Cost\_LRD, the monthly amount for Load Rejection Reserve and System Restart, determined in accordance with System Management's budget the process described in clause 3.13.3B and 3.13.3C; 2.23, and Dispatch Support service determined in accordance with clause 3.11.8B.
- 3.13.3. The parameters Margin\_Peak and Margin\_Off-Peak to be used in the settlement calculation described in clause 9.9.2 are:
- (a) where the Economic Regulation Authority has not completed its first assessment ~~of the efficient costs of System Management~~ in accordance with clause 3.13.3A2.23.3:
- i. 15% for Margin\_Peak; and
  - ii. 12% for Margin\_Off-Peak; and



- (b) determined by the Economic Regulation Authority, where the Economic Regulation Authority has completed its first assessment of the efficient costs of System Management in accordance with clause 3.13.3A2-23.3.

3.13.3A For each Review Period, by 31 March of the year in which the Review Period commences, the Economic Regulation Authority must determine values for the parameters Margin Peak and Margin Off-Peak, taking into account the Wholesale Market Objectives and in accordance with the following:

- (a) by 30 November of the year prior to the start of the Review Period, the IMO must submit a proposal for the Review Period to the Economic Regulation Authority:
- i. for the reserve availability payment margin applying for Peak Trading Intervals, Margin Peak, the IMO 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. for the reserve availability payment margin applying for Off-Peak Trading Intervals, Margin Off-Peak, the IMO 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;
- (b) the Economic Regulation Authority must undertake a public consultation process, which must include publishing an issues paper and issuing an invitation for public submissions.

3.13.3B For each Review Period, by 31 March of the year in which the Review Period commences, the Economic Regulation Authority must determine values for Cost LR, taking into account the Wholesale Market Objectives and in accordance with the following:

- (a) by 30 November of the year prior to the start of the Review Period, System Management must submit a proposal for the Cost LR parameter for the Review Period to the Economic Regulation Authority. Cost LR must cover the costs for providing the Load Rejection Reserve and System Restart Ancillary Services and Dispatch Support Ancillary Services except those provided through clause 3.11.8B;
- (b) the Economic Regulation Authority must undertake a public consultation process, which must include publishing an issues paper and issuing an invitation for public submissions.

3.13.3C For any year within a Review Period if System Management determines Cost LR for the following financial year to be materially different than the costs provided under clause 3.13.3B, then the Economic Regulation Authority must determine the revised values for Cost LR, taking into account the Wholesale Market Objectives and in accordance with the following:

- (a) by 30 November of the year prior to the start of the relevant financial year, System Management must submit an updated proposal for the Cost LR parameter to the Economic Regulation Authority. Cost LR must cover the costs for providing the Load Rejection Reserve and System Restart Ancillary Services and Dispatch Support Ancillary Services except those provided through clause 3.11.8B;
- (b) the Economic Regulation Authority may undertake a public consultation process and:
  - i) if a public consultation process is undertaken, the Economic Regulation Authority must publish an issues paper and issue an invitation for public submissions; and
  - ii) if a public consultation process is not undertaken, the Economic Regulation Authority must publish the reasons behind the decision.

3.22.1. The IMO must provide the following information to the Settlement System for each Trading Month:

- ...
- (c) Margin\_Peak as described in clause ~~3.13.3A-2-23-12(d)(i)~~;
- (d) Margin\_Off-Peak as described in clause ~~3.13.3A-2-23-12(d)(ii)~~;
- ...
- (g) Cost\_LRD as the sum of:
  - i Cost LR (as described in clause 3.13.3B and 3.13.3C) divided by 12 as a monthly amount~~†(e)~~; and
  - ii the monthly amount for Dispatch Support service as advised in accordance with clause 3.22.3(b); and

...

## APPENDIX 1: FULL DETAILS OF THE PROPOSAL

### Background

System Management has the responsibility of determining all Ancillary Service Requirements in accordance with the South West interconnected system (SWIS) Operating Standards and the Ancillary Service standards. This is a quantity determination and not a payment determination. System Management also has responsibility for procuring these Ancillary Service Requirements, with Verve Energy required to provide the remaining requirements.

Ancillary Service payments are either determined from the terms in Ancillary Service Contracts or as specified in the Wholesale Electricity Market Rules (Market Rules). These payments are made by the Independent Market Operator.

Currently, clause 2.23 of the Market Rules (Determination of System Management's budget) is drafted as if the Ancillary Services are paid out of System Management's budget. It thus imposes on System Management a requirement to propose an Ancillary Services budget for the relevant three-yearly Allowable Revenue Review Period.

### Proposal

The primary purpose of this Rule Change Proposal is to remove the requirement for System Management to propose an Ancillary Services budget for the relevant three-yearly Review Period. This will in effect leave System Management with the requirement to propose a budget to cover its system operation services only (see clause 2.23.1(a)).

The Rule Change Proposal also proposes breaking Cost\_LRD down into two parts:

- Cost\_LR to cover load rejection reserve and system restart services. This will be covered in the three-yearly Allowable Revenue review; and
- Dispatch Support service component. This will be determined from information provided monthly by System Management.

This Rule Change Proposal also proposes to amend the Market Rules to state that the:

- IMO is responsible for proposing the Margin\_Peak and Margin\_Off-Peak (margin values) parameters; and
- System Management is responsible for proposing the Cost\_LR parameter.

This would be a new responsibility for both the IMO and System Management if this Rule Change Proposal was to proceed.

## Overview of proposed rule changes

In order to remove the requirement for System Management to propose an Ancillary Services budget for the relevant three-yearly Review Period and place the responsibility for proposing Margin\_Peak, Margin\_Off-peak and Cost\_LR onto the IMO and System Management, it is proposed to amend clauses 2.23.1, 2.23.2, 2.23.3, 2.23.5, 2.23.7, 2.23.12, 3.11.11, 3.11.14, 3.13.1, 3.13.3, 3.13.3A (new) and 3.22.1 in the Market Rules.

An explanation of the proposed amendments to the abovementioned clauses are as follows:

Clause	Explanation of proposed amendments
2.23.1	Modified subclause (a) is an editorial change only. Deleted subclause (b) recognises that System Management does not have to cover Ancillary Service payments out of their budget.
2.23.2	Editorial change only.
2.23.3	Modified subclause (c) is an editorial change only.
2.23.5	Editorial change only.
2.23.7	Editorial change only.
2.23.12	Deleted subclauses (d) and (e) and moved (d) to new clause 3.13.3A subclause (a). With the Ancillary Service budget removed from System Management budget, subclause (d) did not fit here any more. Subclause (e) is deleted altogether to acknowledge that Margin_Peak and Margin_Off-Peak are to be determined to set the total market availability cost rather than only Verve Energy availability cost.
3.11.11	Deleted subclause (d) recognises that System Management does not have to cover Ancillary Service payment out of their budget. There is no apparent budget for Ancillary Services as they are paid in accordance with the Market Rules formulas.
3.11.14	Modified subclause (b) is an editorial change only. Deleted subclause (c) recognises that System Management does not have to cover Ancillary Service payments out of their budget.
3.13.1	This amendment is a clean up of the Market Rules subsequent to the commencement of Amending Rules as set out in Rule Change RC_2008_12 <i>Dispatch support ancillary services</i> . Prior to the commencement of the Amending Rules set out in RC_2008_12, Cost_LRD used to refer to Load Rejection, System Restart and Dispatch Support. RC_2008_12 removed Dispatch Support from Cost_LRD.
3.13.3	Editorial changes only.
3.13.3A	Subclause (a) added here is the original clause 2.23.12 subclauses (d) and (e), with the IMO being responsible for proposing Margin_Peak and Margin_Off-Peak (this is a new responsibility for the IMO) and System Management being responsible for proposing Cost_LR (this is a new responsibility for System Management). Subclause (c) added here is the original clause 2.23.3 subclause (b) repeated. Subclause 3.13.3A (b) allow for Dispatch Support ancillary service to be provided outside clause 3.11.8B.

Clause	Explanation of proposed amendments
3.22.1	Editorial changes only.

Note that clause 2.23 is a protected provision under clause 2.8.13 of the Market Rules and will require Ministerial Approval.

## APPENDIX 2: FULL DETAILS OF THE PROPOSED AMENDING RULES

- 2.23.1. For the purposes of this clause 2.23, the services provided by System Management are:
- (a) system operation services, including all of System Management's functions and obligations under these Market Rules, ~~except the provision of Ancillary Services; and~~
  - (b) ~~System Management's functions and obligations under these Market Rules in relation to the provision of Ancillary Services.~~
- 2.23.2. For each year until the process referred to in clause 2.23.3 to 2.23.10 applies, the Shareholding Minister must determine the budget of System Management for ~~each of~~ the services described in clause 2.23.1.
- 2.23.3. For each Review Period, System Management must seek the approval of its Allowable Revenue from the Economic Regulation Authority in accordance with the following:
- ...
- (c) by 31 March of the year in which the Review Period commences, the Economic Regulation Authority must determine the Allowable Revenue of System Management for the Review Period for ~~each of~~ the services described in clause 2.23.1.
- 2.23.5. Following the first determination of the Allowable Revenue of System Management by the Economic Regulation Authority in accordance with clause 2.23.3, by 30 April each year System Management must prepare a budget proposal for ~~each of~~ the services described in clause 2.23.1 for the coming Financial Year.
- 2.23.7. Where the revenue earned for a service described in clause 2.23.1 via System Operation Fees or Ancillary Service payments in the previous Financial Year is greater than or less than System Management's expenditure for that Financial Year, the current year's budget must take this into account by decreasing the budgeted revenue by the amount of the surplus or adding to the budgeted revenue the amount of any shortfall, as the case may be.
- 2.23.12. The Economic Regulation Authority must take the following into account when determining the Allowable Revenue of System Management:
- ...

- (b) the Allowable Revenue must include only costs which would be incurred by a prudent provider of the services described in clause 2.23.1, acting efficiently, in accordance with good electricity industry practice, seeking to achieve the lowest practicably sustainable cost of delivering the services described in clause 2.23.1 in accordance with these Market Rules, while effectively promoting the Wholesale Market Objectives; and
- (c) where possible, the Economic Regulation Authority should benchmark the Allowable Revenue against the costs of providing similar services in other jurisdictions; and
- ~~(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 Ancillary Services, but does not take into account the costs for providing Dispatch Support Ancillary Services.~~~~
- ~~(e) the determination of the Allowable Revenue of Ancillary Service provision must take into account Ancillary Service Contracts that System Management has entered into.~~

- 3.11.11. By 1 June each year, System Management must submit to the IMO a report containing information on:
- ...
- (b) the total cost of each of the categories of Ancillary Services provided, including Ancillary Services provided under Ancillary Service Contracts, in the preceding year; and
  - (c) the Ancillary Service Requirements for the coming year and the Ancillary Services plan to meet those requirements; ~~and~~
  - (d) ~~the budget approved in accordance with clause 2.23 for providing Ancillary Services for the coming year.~~
- 3.11.14 System Management must document in the Power System Operating Procedure the procedure to be followed, and must follow that documented Market Procedure, when:
- ...
- (a) determining Ancillary Service Requirements; and
  - (b) entering into Ancillary Services Contracts, including the process for conducting competitive tender processes utilised for the awarding of Ancillary Services Contracts; ~~and~~
  - (c) ~~preparing budget proposals for providing Ancillary Services.~~
- 3.13.1. The total payments by the IMO on behalf of System Management for Ancillary Services in accordance with Chapter 9 comprise:
- ...
- (c) Cost\_LRD, the monthly amount for Load Rejection Reserve and System Restart, determined in accordance with System Management's budget the process described in clause 3.13.3A; 2.23, and Dispatch Support service determined in accordance with clause 3.11.8B.
- 3.13.3. The parameters Margin\_Peak and Margin\_Off-Peak to be used in the settlement calculation described in clause 9.9.2 are:
- (a) where the Economic Regulation Authority has not completed its first assessment ~~of the efficient costs of System Management~~ in accordance with clause 3.13.3A2.23.3:
    - i. 15% for Margin\_Peak; and
    - ii. 12% for Margin\_Off-Peak; and
  - (b) determined by the Economic Regulation Authority, where the Economic Regulation Authority has completed its first assessment ~~of the efficient costs of System Management~~ in accordance with clause 3.13.3A2.23.3.



3.13.3A For each Review Period, by 31 March of the year in which the Review Period commences, the Economic Regulation Authority must determine values for the parameters Margin Peak, Margin Off-Peak and Cost LR in accordance with the following:

(a) by 30 November of the year prior to the start of the Review Period, the IMO must submit a proposal for the Review Period to the Economic Regulation Authority:

i. for the reserve availability payment margin applying for Peak Trading Intervals, Margin Peak, the IMO 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. for the reserve availability payment margin applying for Off-Peak Trading Intervals, Margin Off-Peak, the IMO 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;

(b) by 30 November of the year prior to the start of the Review Period, System Management must submit a proposal for the Cost LR parameter for the Review Period to the Economic Regulation Authority. Cost LR must cover the costs for providing the Load Rejection Reserve and System Restart Ancillary Services and Dispatch Support Ancillary Services except those provided through clause 3.11.8B.

(c) the Economic Regulation Authority must undertake a public consultation process, which must include publishing an issues paper and issuing an invitation for public submissions.

3.22.1. The IMO must provide the following information to the Settlement System for each Trading Month:

...

- (c) Margin\_Peak as described in clause ~~3.13.3A-2.23.12(d)(i)~~;
- (d) Margin\_Off-Peak as described in clause ~~3.13.3A-2.23.12(d)(ii)~~;
- ...
- (g) Cost\_LRD as the sum of:
  - i Cost LR (as described in clause 3.13.3A) divided by 12 as a monthly amount~~1(e)~~; and
  - ii the monthly amount for Dispatch Support service as advised in accordance with clause 3.22.3(b); and

### APPENDIX 3: AMENDMENTS MADE TO THE AMENDING RULES FOLLOWING THE FIRST SUBMISSION PERIOD

These changes are as follows (~~deleted text~~, added text):

- 3.13.1 The total payments by the IMO on behalf of System Management for Ancillary Services in accordance with Chapter 9 comprise:
  - ...
  - (c) Cost\_LRD, the monthly amount for Load Rejection Reserve and System Restart, determined in accordance with the process described in clause ~~3.13.3A~~ 3.13.3B and 3.13.3C; and Dispatch Support service determined in accordance with clause 3.11.8B.
- 3.13.3A For each Review Period, by 31 March of the year in which the Review Period commences, the Economic Regulation Authority must determine values for the parameters Margin\_Peak and Margin\_Off-Peak, taking into account the Wholesale Market Objectives and Cost\_LR in accordance with the following:
  - (a) by 30 November of the year prior to the start of the Review Period, the IMO must submit a proposal for the Review Period to the Economic Regulation Authority:
    - i. for the reserve availability payment margin applying for Peak Trading Intervals, Margin\_Peak, the IMO 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. for the reserve availability payment margin applying for Off-Peak Trading Intervals, Margin\_Off-Peak, the IMO 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;

~~(b) — by 30 November of the year prior to the start of the Review Period, System Management must submit a proposal for the Cost\_LR parameter for the Review Period to the Economic Regulation Authority. Cost\_LR must cover the costs for providing the Load Rejection Reserve and System Restart Ancillary Services and Dispatch Support Ancillary Services except those provided through clause 3.11.8B.~~

~~(e)(b)~~ the Economic Regulation Authority must undertake a public consultation process, which must include publishing an issues paper and issuing an invitation for public submissions.

3.13.3B For each Review Period, by 31 March of the year in which the Review Period commences, the Economic Regulation Authority must determine values for Cost\_LR, taking into account the Wholesale Market Objectives and in accordance with the following:

(a) by 30 November of the year prior to the start of the Review Period, System Management must submit a proposal for the Cost\_LR parameter for the Review Period to the Economic Regulation Authority. Cost\_LR must cover the costs for providing the Load Rejection Reserve and System Restart Ancillary Services and Dispatch Support Ancillary Services except those provided through clause 3.11.8B;

(b) the Economic Regulation Authority must undertake a public consultation process, which must include publishing an issues paper and issuing an invitation for public submissions.

3.13.3C For any year within a Review Period if System Management determines Cost\_LR for the following financial year to be materially different than the costs provided under clause 3.13.3B, then the Economic Regulation Authority must determine the revised values for Cost\_LR, taking into account the Wholesale Market Objectives and in accordance with the following:

(a) by 30 November of the year prior to the start of the relevant financial year, System Management must submit an updated proposal for the Cost\_LR

parameter to the Economic Regulation Authority. Cost\_LR must cover the costs for providing the Load Rejection Reserve and System Restart Ancillary Services and Dispatch Support Ancillary Services except those provided through clause 3.11.8B;

(b) the Economic Regulation Authority may undertake a public consultation process and:

- i) if a public consultation process is undertaken, the Economic Regulation Authority must publish an issues paper and issue an invitation for public submissions;
- ii) if a public consultation process is not undertaken, the Economic Regulation Authority must publish the reasons for not undertaking the public consultation process.

3.22.1. The IMO must provide the following information to the Settlement System for each Trading Month:

...

(c) Margin\_Peak as described in clause 3.13.3A;

(d) Margin\_Off-Peak as described in clause 3.13.3A;

...

(g) Cost\_LRD as the sum of:

- i Cost\_LR (as described in clause ~~3.13.3A~~ 3.13.3B and 3.13.3C) divided by 12 as a monthly amount; and
- ii the monthly amount for Dispatch Support service as advised in accordance with clause 3.22.3(b); and

...

## APPENDIX 4: LEGISLATION REVIEW

The outcomes from the IMO's legislative review to assess whether any other regulatory body has prescriptive criteria to consider before calling a public consultation are presented below.

Item of Legislation	Prescribed Criteria
<b>ERA</b>	
Electricity Industry Act 2004	None
Electricity Industry (Code of Conduct) Regulations 2005	None
Electricity Industry (Customer Contracts) Regulations 2005	None
Electricity Industry (Licence Conditions) Regulations 2005	None
Electricity Industry (Access Code Enforcement) Regulations 2005	None
Electricity Industry (Licensing Fees) Regulations 2005	None
Electricity Industry (Obligation To Connect) Regulations 2005	None
Electricity Industry (Wholesale Electricity Market) Regulations 2004	None
Electricity Industry (Network Quality and Reliability of Supply) Code 2005	None
Code of Conduct (For the Supply of Electricity to Small Use Customers)	None
Electricity Industry Customer Transfer Code 2004	None
Electricity Networks Access Code 2004	None
Electricity Industry Metering Code 2005	None
<b>Essential Services Commission (Victoria)</b>	
Essential Services Commission Act 2001	None
Electricity Distribution Code	None
Electricity Customer Metering Code	None
Regulatory Audits of Retail Energy Businesses	None
Greenhouse Gas Disclosure On Electricity Customers' Bills	None
Energy Retail Code	None
Retailers of Last Resort Procedural Manual	None
<b>IPART (NSW)</b>	
Independent Pricing and Regulatory Tribunal Act 1992	None
Gas Supply Act 1996	None
<b>Queensland Competition Authority (QLD)</b>	
Electricity Act 1994	None
Gas Supply Act 2003	None
<b>ACCC</b>	
Trade Practices Act 1974	None
<b>AEMC</b>	
National Gas Rules 2009	None
National Electricity Rules Version 31	None
National Electricity (South Australia) Act 1996	None
<b>Essential Services Commission (South Australia)</b>	
Electricity Act 1996	None
Gas Act 1997	None
<b>Office of the Tasmanian Electricity Regulator</b>	
Electricity Supply Industry Act 1995	None
Gas Act 2000	None