



Draft Rule Change Report

Title: Annual Review of Margin Values

Ref: RC_2010_01
Standard Rule Change Process

Date: 30 April 2010

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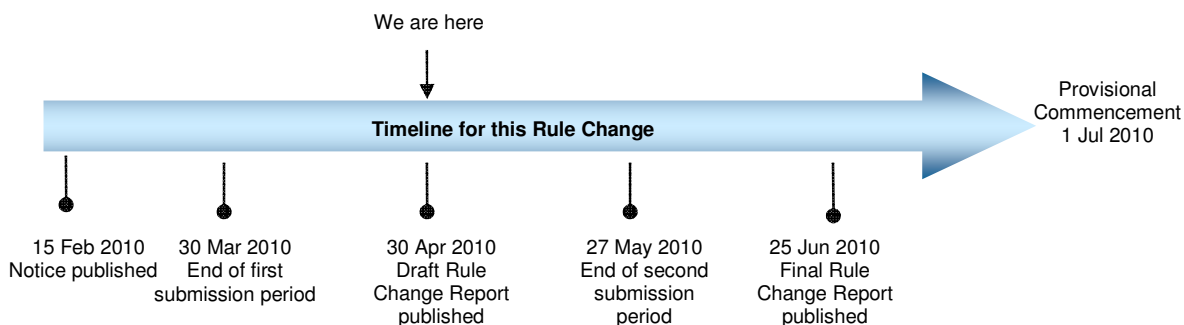
1. INTRODUCTION

On 12 February 2010 Verve Energy submitted a Rule Change Proposal regarding amendments to clause 3.13.3A 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:



Please note the commencement date is provisional and may be subject to change in the Final Rule Change Report.

The draft decision of the IMO Board is to accept the Rule Change Proposal as proposed and modified following the first submission period. The detailed reasons for the decision are set out in section 5 of this report.

In making its draft 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); 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_2010_01.

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, **Thursday 27 May 2010**.

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

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

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Date submitted:	12 February 2010
Urgency:	Standard Rule Change Process
Change Proposal title:	Annual Review of Margin Values
Market Rule affected:	3.13.3A

3.2 Summary details of the Proposal

Payments to both Verve Energy and independent providers for Ancillary Services are made in accordance with clause 3.13 of the Market Rules. In particular, clause 3.13.1 includes an availability cost determined in accordance with clause 9.9.2, to which two key inputs are the parameters Margin_Peak and Margin_Off-Peak. Currently, the values for these parameters are determined for each three year Review Period, in accordance with clause 3.13.3A.

Verve Energy's Rule Change Proposal sought to amend the Market Rules so that the values for Margin_Peak and Margin_Off-Peak are reviewed annually rather than every three years. Verve Energy considered that this would allow for the margin values to be updated more frequently and therefore better reflect actual operating conditions.

Full details of the Rule Change Proposal are available in Appendix 1 of this report.

3.3 The Proposal and the Wholesale Market Objectives

Verve Energy submitted that the proposed Amending Rules will better achieve market objectives (a) and (b) by ensuring the economically efficient, safe and reliable production and supply of electricity related services in the South West interconnected system (SWIS) through pricing that is reflective of current costs. Furthermore, Verve Energy considered that the proposed Amending Rules should encourage Market Participants to

participate in the provision of electricity related services as the price signals will be reflective of current market conditions.

3.4 Amending Rules proposed by the IMO

The amendments to the Market Rules originally proposed by Verve Energy are available in the Rule Change Notice and presented in Appendix 2 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 16 February 2010 and 30 March 2010.

4.1 Submissions received

The IMO received submissions from Alinta, Landfill Gas & Power (LGP), Perth Energy and Synergy. The main points raised in the submissions are noted below; additional detail along with the IMO's response is contained in section 4.3 of this paper. The full text of all submissions is available on the IMO website.

4.1.1 Submission from Alinta

While Alinta supports the general principle, it does not consider that it is either necessary or desirable to amend the Market Rules as proposed at this time.

Alinta notes that the need for changes to the current Market Rules to facilitate broader participation in the provision of Ancillary Services was one of the key recommendations of the August 2009 Verve Energy Review (Oates Review).

Alinta considers that the current Market Rules are unlikely to support the economically efficient provision of Ancillary Services, highlighted when System Management did not receive any responses to its request for expressions of interest for the provision of Load Following Ancillary Services.

Alinta notes that the first Oates Review Implementation Concept Paper identified a number of alternative market design options, which were considered to better achieve the recommendations of the Oates Review relative to the current Market Rules. These recommendations included a broader participation in the provision of Ancillary Services. In particular, Alinta notes that the "enhanced hybrid" and "enhanced hybrid plus renomination" options (options A1 and A2 respectively) recognise that Ancillary Services and in particular Balancing services provided by Verve Energy and/or other Market Generators should be appropriately compensated. The remaining two alternative market design options (Options B and C) might instead result in System Management dispatching generation Facilities to provide Ancillary Services in accordance with an economic dispatch order.

Alinta considers that given the IMO has indicated that a full detailed design is to be finalised by mid-2010, and that drafting of Amending Rules is to take place between July 2010 and September 2010, the amendments to the Market Rules contemplated by this proposal appear both premature and unnecessary.

Alinta states that this is even more so given:

- the Economic Regulation Authority (ERA) has only recently determined revised values for the Margin_Peak and Margin_Off-Peak parameters; and
- it appears unlikely that the amendments would result in the ERA reviewing the values for the Margin_Peak and Margin_Off-Peak parameters that applied for a year earlier than 2011/12.

The Rule Change Proposal and the Wholesale Market Objectives

Alinta considers that the IMO cannot be satisfied that the Rule Change Proposal is consistent with the Wholesale Market Objectives, and in any event is likely to be inconsistent with the Wholesale Market Objectives. In particular, Alinta considers that the proposed amendments are unlikely to meet Wholesale Market Objectives (a), (b) and (d).

4.1.2 Submission from Landfill Gas & Power

LGP supports the Rule Change Proposal. This support is based on the grounds that the variables influencing the calculation of the Margin_Peak and Margin_Off-Peak values are volatile. Any inaccuracies in the variables will have a material impact on the market and Verve Energy.

The Rule Change Proposal and the Wholesale Market Objectives

LGP supports Verve's contention that the proposed changes support Market Objective (a) by making the payment for Ancillary Services cost reflective. LGP considers the proposal to be in harmony with the other market objectives.

4.1.3 Submission from Perth Energy

Perth Energy agrees with Verve Energy that the Margin_Peak and Margin_Off-Peak values should be reviewed more frequently than every three years. This will help ensure more accurate cost recovery for the provision of this service.

However, Perth Energy notes that in an environment where these parameters are reset annually and as such the volatility of Ancillary Services costs faced by Market Participants may potentially increase, it is essential that all generators who wish to offer Ancillary Services are able to do so. This would provide themselves with an opportunity to hedge these costs in the marketplace.

Perth Energy considers that the more frequent review of these parameters may encourage more Market Participants to seek to provide Ancillary Services, in turn strengthening the overall level of competition. Perth Energy considers that such increases in competition are necessary to give rise to further efficiencies in the operation of the market.

The Rule Change Proposal and the Wholesale Market Objectives

Perth Energy considers the change would better facilitate the achievement of all of the Market Objectives and in particular Market Objectives (a) and (b). The proposed change should allow for payments for Spinning Reserve provision to Verve Energy, and other generators that may wish to provide this service in future, to be more cost reflective. This should encourage more competition in the provision of this service and greater overall efficiency in the production and supply of electricity.

4.1.4 *Submission from Synergy*

Synergy supports the Rule Change Proposal, agreeing that a more frequent review will ensure that the margin values better reflect actual operating conditions, resulting in more efficient market outcomes for both generators and consumers.

The Rule Change Proposal and the Wholesale Market Objectives

Synergy agrees with Verve Energy that the proposed changes will be consistent with Market Objectives (a) and (b).

4.2 *Public Forums and Workshops*

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

4.3 *The IMO's response to submissions received during the First Submission Period*

During the first submission period a number of points were raised regarding the proposed amendments to the Market Rules. The IMO's response to each of the issues is presented in the table over the page:

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Clause	Submitter	Comment/Change Requested	IMO's response
3.13.3A	Alinta	<p>The first Oates Review Implementation Concept Paper identified a number of alternative market design options that were considered to better achieve the recommendations of the Oates Review relative to the current Market Rules, including broader participation in the provision of Ancillary Services.</p> <p>Given the IMO has indicated that a full detailed design is to be finalised by mid-2010, and that drafting of amending rules is to take place between July 2010 and September 2010, the amendments contemplated by this proposal appear both premature and unnecessary.</p> <p>This is even more so given that the ERA has only recently determined updated values for the coming Review Period. It appears unlikely that the amendments contemplated by this proposal would result in the ERA reviewing the values to apply for any year earlier than 2011/12.</p>	<p>Market changes arising from the work of the Market Rules Working Group (Oates Review) may affect the way in which participants are compensated for Ancillary Services. However, the Amending Rules proposed by Verve Energy should be progressed as they are not in conflict with the initial conclusions of the Working Group.</p> <p>Additionally, as outlined in section 5.1 of this paper, the Rule Change Proposal in its own right better addresses Wholesale Market Objectives (a) and (b) and is consistent with the remaining Wholesale Market Objectives.</p> <p>Alinta is correct in that the amendments contemplated by this proposal would not result in the ERA reviewing the values to apply for any year earlier than 2011/12.</p>
3.13.3A	Alinta	<p>Alinta suggested that the IMO cannot be satisfied that the proposal is consistent with the Wholesale Market Objectives, and in any event is likely to be inconsistent with the Wholesale Market Objectives.</p> <p>In particular, Alinta considers that the proposed amendments are unlikely to meet Wholesale Market Objectives (a), (b) and (d).</p>	<p>As outlined in section 5.1 of this paper, the proposed amendments are consistent with the Wholesale Market Objectives, and in particular will better address Market Objectives (a) and (b), by removing a barrier to broader participation in the provision of Ancillary Services. However, further changes may also be required to address other issues surrounding the provision of Ancillary Services.</p>
3.13.3A	Perth Energy	<p>In an environment where Ancillary Service peak parameters are reset annually and as such the volatility of Ancillary Services costs faced by Market Participants may potentially increase, it is essential that all generators who wish to offer such services are able to do so – providing themselves with an opportunity to hedge these costs in the marketplace.</p>	<p>The need for broader participation in the provision of Ancillary Services was raised as a key concern by the MAC as part of the Market Rules Evolution Plan and by the Oates Review. The IMO acknowledges Perth Energy's concerns and considers that they fall within the Terms of Reference of the Market Rules Design Team (Oates Review).</p>

4.4 Additional Amendments to the Amending Rules

Following the first public submission period the IMO has made some minor changes to the proposed Amending Rules to clarify that the values for Margin_Peak and Margin_Off-Peak will be determined for each financial year. These additional amendments are contained in Appendix 3 of this paper.

5. THE IMO'S ASSESSMENT

In preparing its 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.

Clause 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 or any technical studies commissioned in respect of this Rule Change Proposal.

The 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

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 Wholesale Market Objectives (a) and (b):

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

The IMO considers that the proposed Amending Rules will promote the economically efficient supply of electricity and electricity related services in the SWIS. The proposed changes will ensure that payments for Ancillary Services are more cost reflective, by ensuring that the values for Margin_Peak and Margin_Off-Peak better reflect current operating conditions. By removing one of the barriers to competition the changes should also help ensure continuing reliability in the SWIS, by expanding the range of options available for the provision of Ancillary Services.

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

The IMO considers that the changes will better achieve Market Objective (b) by encouraging the entry of new competitors into the Ancillary Services market. In particular, by annually reviewing the margin values there will be greater certainty that both Verve Energy and independent providers will be appropriately compensated for energy sales forgone and losses in generator efficiency resulting from backing off generation to provide Spinning Reserve. This would remove one of the impediments to broader participation in the provision of Ancillary Services, although the IMO acknowledges the existence of other issues that may also need to be addressed to achieve this goal.

The IMO considers that the proposed changes are consistent with the remaining Market Objectives.

5.2 Practicality and Cost of Implementation

Cost:

The proposed changes will impose additional costs on the IMO and the ERA, due the increased frequency of the reviews The IMO's costs associated with an annual review are approximately \$30,000.

The proposed amendments do not require any change to the Wholesale Electricity Market Systems operated by the IMO or any of the systems operated by System Management. In addition there have been no identified changes to other Rule Participant's compliance costs.

Practicality:

The IMO has not identified any issues with the practicality of implementing the proposed changes.

5.3 Market Advisory Committee

The MAC discussed the proposal at the 10 February 2010 MAC meeting. An overview of the discussion from the MAC meeting is presented below. Further details are available in the MAC meeting minutes available on the IMO website:

<http://www.imowa.com.au/market-advisory-committee>

February 2010 MAC meeting

Verve Energy presented the Pre Rule Change Discussion Paper to MAC members.

The IMO noted that following the 2009 margin value review annual compensation to Verve Energy for Spinning Reserve services is projected to increase from approximately \$15m to \$40m. The IMO considered that the quantum of this change supports a move towards more frequent review of margin values. Further, the IMO advised that its costs associated with an annual review are approximately \$30,000, which can currently be accommodated within the IMO's normal budgetary processes.

Alinta noted that in principle it has no issue with the Pre Rule Change Discussion Paper, but stated its preference would be for the issue to be set aside until the broader issues around Ancillary Services are resolved via the Oates Review. Alinta did not consider that there was any urgency in making the proposed changes and that the proposal could be revisited if required.

LGP noted that from an efficiency point of view the proposed changes may be negated by the broader outcomes of the Oates Review. However, LGP also noted the contra argument in that the outcomes of the Oates Review are largely unknown and, as Verve Energy had identified the impacts of less frequent review of the Margin Values as being significant, the Rule Change Proposal should proceed. In particular, LGP noted the uncertainty around the contribution of carbon tax is likely to have a large impact on the appropriateness of the margin values in future.

LGP noted the benefits of proceeding appear to outweigh the costs and the Rule Change Proposal, if implemented, would be relatively easy to administer.

Verve Energy was in agreement with LGP and stated that the uncertainty surrounding the introduction of a carbon reduction scheme was a significant issue for it. Further, Verve Energy noted that it considers that there is a risk to the Market if the margin values are not reviewed more frequently.

The ERA noted that a more comprehensive review of the provision of Ancillary Services may be required. Alinta agreed and noted that it considers there are some barriers to achieving a competitive Ancillary Service outcome at present.

It was noted that the Rule Change Proposal gives Verve Energy some comfort that it is appropriately recompensed using up to date values, which in turn minimises some of Verve Energy's risks.

The IMO noted that the proposed amendments send a positive signal to those interested stakeholders considering the financial impact on the Balancing generator. Additionally, the IMO considered that the amendment is important from a market integrity perspective.

The MAC supported the progression of the Rule Change Proposal.

5.4 Views Expressed in Submissions

The IMO received three submissions in favour of and one submission not supporting the Rule Change Proposal during the first submission period.

LGP, Perth Energy and Synergy all supported the Rule Change Proposal. They agreed that the proposed amendments better address Wholesale Market Objective (a) by making payments for Ancillary Services more cost reflective. Perth Energy and Synergy considered that the proposed amendments also better address Wholesale Market Objective (b).

Perth Energy noted that in an environment where these parameters are reset annually, and as such the volatility of Ancillary Services costs faced by Market Participants may potentially increase, it is essential that all generators who wish to offer Ancillary Services are able to do so.

Alinta did not support the Rule Change Proposal, although it expressed support for the general principle underlying it. In particular, Alinta stated that the proposed amendments appear both premature and unnecessary, given the proposed scope and timing of the work being undertaken by the Market Rules Design Team (Oates Review).

The IMO's response to each of the issues raised in submissions in section 4.3 of this report.

6. THE IMO'S DRAFT DECISION

The IMO's draft decision is to accept the amendment of clause 3.13.3A of the Market Rules as proposed in the Rule Change Proposal and amended following the first submission period.

6.1 Reasons for the decision

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

- Will allow the Market Rules to better address Wholesale Market Objectives (a) and (b);
- Are consistent with the remaining Wholesale Market Objectives;
- Have the general support of the MAC members; and
- Have the general support of the majority of submissions received during the first submission period.

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

7. PROPOSED AMENDING RULES

3.13.3A For each ~~Review Period~~ Financial Year, by 31 March of the year in which the ~~Review Period~~ Financial Year 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~~ Financial Year, the IMO must submit a proposal for the ~~Review Period~~ Financial Year 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.

APPENDIX 1: FULL DETAILS OF THE PROPOSAL

Background

Ancillary Services are used to guarantee the safe, secure and reliable supply of electricity on the SWIS by ensuring the system can adequately respond to real time changes in load and generation under a range of scenarios.

While Ancillary Services are required to support the WEM, they are not traded as part of the WEM. System Management has the responsibility of determining all Ancillary Services Requirements and procuring adequate quantities of these services, either from the Electricity Generation Corporation (Verve Energy) – the default option – or on a contestable basis from independent providers if they provide a lower cost option than Verve Energy's facilities.

Payments to both Verve Energy and independent providers for Ancillary Services are made by the IMO on behalf of System Management in accordance with clause 3.13.1 of the Market Rules. In particular, clause 3.13.1 includes an availability cost determined in accordance with clause 9.9.2, to which two key inputs are the Margin_Peak and Margin_Off-Peak parameters. These parameters reflect the payment margin, in peak and off-peak Trading Intervals, that, when multiplied by the volume of reserve provided and MCAP, will compensate Verve Energy for energy sales foregone and losses in generator efficiency resulting from backing off generation to provide Spinning Reserve. As clause 3.11.8 implies that any independent providers will have lower costs than Verve Energy, it is assumed that they would be adequately compensated by the margin values determined to compensate Verve Energy. Note that one of the matters for consideration identified by the Oates Review is the efficacy and costs and benefits of amending the Market Rules that allocate costs among participants, for example for ancillary services and the Balancing mechanism.

Currently the values to apply for the Margin_Peak and Margin_Off-Peak parameters are determined by the ERA for each three-year Review Period. In particular, clause 3.13.3A(a) of the Market Rules requires the IMO to submit to the ERA a proposal containing the reserve availability payment margin for both Peak and Off-Peak Trading Intervals. This proposal must be provided by 30 November of the year prior to the start of the Review Period. The ERA will undertake public consultation on the values as part of its determination of Allowable Revenue for the relevant Review Period. Following the conclusion of the public consultation process, the ERA will make a determination whether to approve the margin values to apply for the next Review Period.

Issue

There are a number of assumptions that are used in proposing the Margin Peak and Margin Off-Peak parameters and as such the market conditions on which these plant and fuel assumptions are based can change dramatically over a three-year period. The more time elapses, the more likely it is that changes will occur. Therefore the degree of confidence in an assumption for year three will be much lower than for year one. High margins of error associated with the input variables used in determining the Margin_Peak and Margin_Off-Peak parameters will reduce the appropriateness of these values in compensating Verve Energy and any independent suppliers of Ancillary Services.

With regard to the review of the margin values undertaken in 2009, McLennan Magasanik Associates (MMA)¹ assumed that Bluewaters 3 would be operational by September 2012. The uncertainty surrounding this assumption increased the margin of error of the values determined by MMA. This is because at the time of undertaking the 2009 review it was uncertain whether Bluewaters 3 would enter the market by September 2012 or may delay its entry. This issue with assumptions around the entry of new plant is true of all new entrants. In addition, further assumptions around the type of plant that would be available for a Capacity Year in advance would also be likely to affect the determination of the margin values.

Additionally, MMA noted in its report that carbon price assumptions to apply in determining the margin values can be made only with considerable uncertainty regarding the start date of any adopted scheme and the price in subsequent years. If a scheme that differed from the one assumed by MMA – a 5% reduction target and a maximum introductory price of \$10/tCO₂e – were to be implemented early in the Review Period, then the margin values to apply in the final years would be based on assumptions that would probably be incorrect by that time, and would not correctly compensate Verve Energy and other independent providers.

The assumptions relating to the gas prices for the three year Review Period are likely to result in the largest potential margin of error associated with the determined margin values. This is due to the large level of volatility associated with fuel prices in the WEM, as evidenced during the consultation periods for the reviews of both the margin values and the Energy Price Limits during 2009. Verve Energy notes that the IMO will be undertaking a more thorough review of the gas prices in the WEM, which will feed into the Energy Price Limits review for 2010. Verve Energy considers that the outcomes of this review should also feed into the margin values process.

For further details of the assumptions made by MMA in undertaking its review of the margin values during 2009, please refer to MMA's Assumptions and Methodology Report available on the following webpage: <http://www.imowa.com.au/Fuel-Price-Assumptions-2009>

Proposal

To allow for the margin values to be updated more frequently and therefore better reflect actual operating conditions, Verve Energy proposed that the review of margin values be conducted annually.

¹MMA was engaged by the IMO to assist in determining the appropriate margin values to apply for the next Review Period commencing 1 July 2010,

APPENDIX 2: PROPOSED AMENDING RULES IN THE RULE CHANGE PROPOSAL

Verve Energy proposed the following amendments to the Market Rules in its Rule Change Proposal (~~deleted text~~, added text):

3.13.3A ~~For each Review Period, by 31 March of the year in which the Review Period commences, the~~ The Economic Regulation Authority must annually 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~~ each 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.

APPENDIX 3: ADDITIONAL AMENDMENTS MADE BY THE IMO FOLLOWING THE FIRST SUBMISSION PERIOD

The IMO has made some amendments to the Amending Rules following its assessment of the first submission period responses. These changes are as follows (~~deleted text~~, added text):

3.13.3A For each Financial Year, by 31 March of the year in which the Financial Year commences, the The Economic Regulation Authority must annually 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 each year~~ prior to the start of the Financial Year, the IMO must submit a proposal for the Financial Year 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.