

Rule Change Notice

Four month Commissioning Test Period for new generating systems RC_2012_15

This notice is given under clause 2.5.7 of the Market Rules.

Date Submitted: 2 October 2012

Submitter: The IMO

The Proposal

The IMO has identified that under the new Balancing Market design the current restriction of four months for the commissioning of a new generating system is no longer plausible or appropriate. The IMO considers it inappropriate to leave new generating systems without a mechanism under the market Rules to finish their required commissioning activities and enter the market after the four month Commissioning Test window has lapsed. The IMO proposes to remove the current restriction of four months on Commissioning Test Periods for new generating systems. This will enable new generating systems to undertake Commissioning Tests for as long as required provided System Management can accommodate the activities.

Appendix 1 contains the Rule Change Proposal and gives complete information about:

- the proposed amendments to the Market Rules;
- relevant references to clauses of the Market Rules and any proposed specific amendments to those clauses; and
- the submitter's description of how the proposed amendments would allow the Market Rules to better address the Wholesale Market Objectives.

Decision to Progress the Rule Change

The IMO has decided to progress the Rule Change Proposal on the basis that Rule Participants should be given an opportunity to provide submissions as part of the rule change process.

The IMO has decided to subject the Rule Change Proposal to the Fast Track Rule Change Process described in section 2.6 of the Market Rules, on the grounds that it satisfies the criteria in clauses 2.5.9(b) of the Market Rules.

Clause 2.5.9 states:

The IMO may subject a Rule Change Proposal to the Fast Track Rule Change Process if, in its opinion, the Rule Change Proposal:

(a) is of a minor or procedural nature; or

(b) is required to correct a manifest error; or

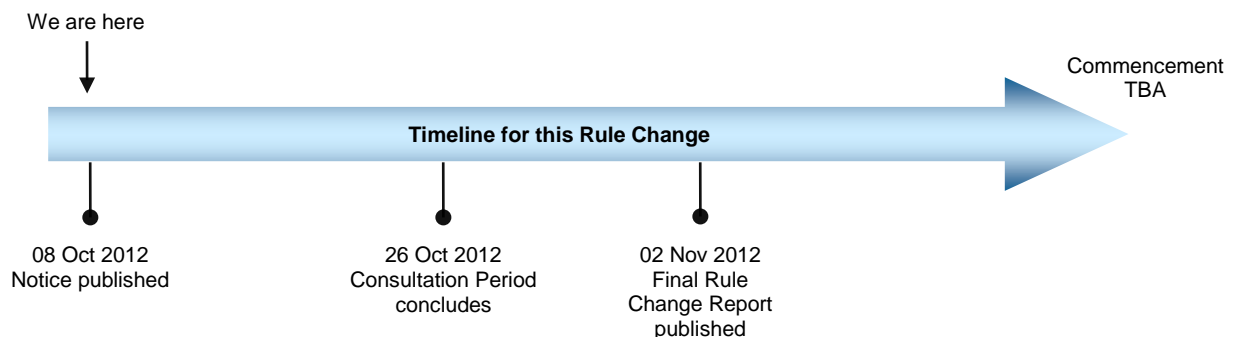
(c) is urgently required and is essential for the safe, effective and reliable operation of the market or the SWIS.

The removal under the new Balancing Market of the ability for a new generating system to make a commercial decision to commission directly in the energy market means that after the four month commissioning period a Facility that still needs to undertake any commissioning activities will be unable to do so. A Market Participant in this situation will be exposed to the potential application of Civil Penalties if they undertake commissioning activities without having an approved Commissioning Test.

The IMO considers that the inability of a new commissioning generator to complete its Commissioning Tests (which may include tests required under the Technical Rules) without being potentially liable for civil penalties if its Commissioning Test Period exceeds four months (as restricted under clause 3.21A7(c)) is a manifest error. The Rule Change Proposal satisfies clause 2.5.9(b) and therefore may be subject to the Fast Track Rule Change Process.

Timeline

The projected timelines for processing this proposal are:



Call for Submissions

Any Rule Participant wishing to be consulted regarding this Rule Change Proposal is invited to notify the IMO within 5 Business Days of this notice being published by 5:00pm on Friday 12 October 2012.

The consultation period is 15 Business Days from the publication date of this Rule Change Notice. Submissions must be delivered to the IMO by 5.00pm on 26 October 2012.

The IMO prefers to receive submissions by email (using the submission form available on the



INDEPENDENT
MARKET
OPERATOR

Market Web Site: <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: Group Manager, Market Development

PO Box 7096

Cloisters Square, PERTH, WA 6850

Fax: (08) 9254 4399

Wholesale Electricity Market Rule Change Proposal Form

Change Proposal No: *RC_2012_15*
Received date: *2 October 2012*

Change requested by:

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|---------------------------------|--|
| Name: | <i>Suzanne Frame</i> |
| Phone: | <i>9254 4304</i> |
| Fax: | <i>9250 4399</i> |
| Email: | <i>suzanne.frame@imowa.com.au</i> |
| Organisation: | <i>Independent Market Operator</i> |
| Address: | <i>Level 3 Governor Stirling Tower, 197 St Georges Terrace, Perth</i> |
| Date submitted: | <i>2 October 2012</i> |
| Urgency: | <i>High</i> |
| Change Proposal title: | <i>Four month Commissioning Test Period for new generating systems</i> |
| Market Rule(s) affected: | <i>3.21A.7</i> |

Introduction

Market Rule 2.5.1 of the Wholesale Electricity Market Rules provides that any person (including the IMO) may make a Rule Change Proposal by completing a Rule Change Proposal Form that must be submitted to the Independent Market Operator.

This Change Proposal can be posted, faxed or emailed to:

Independent Market Operator
Attn: Group Manager, Market Development
PO Box 7096
Cloisters Square, Perth, WA 6850
Fax: (08) 9254 4339
Email: market.development@imowa.com.au

The Independent Market Operator will assess the proposal and, within 5 Business Days of receiving this Rule Change Proposal form, will notify you whether the Rule Change Proposal will be further progressed.

In order for the proposal to be progressed, all fields below must be completed and the change proposal must explain how it will enable the Market Rules to better contribute to the achievement of the wholesale electricity market objectives. The objectives of the market are:

- (a) to promote the economically efficient, safe and reliable production and supply of electricity and electricity related services in the South West interconnected system;
- (b) to encourage competition among generators and retailers in the South West interconnected system, including by facilitating efficient entry of new competitors;
- (c) to avoid discrimination in that market against particular energy options and technologies, including sustainable energy options and technologies such as those that make use of renewable resources or that reduce overall greenhouse gas emissions;
- (d) to minimise the long-term cost of electricity supplied to customers from the South West interconnected system; and
- (e) to encourage the taking of measures to manage the amount of electricity used and when it is used.

Details of the proposed Market Rule Change

1. Describe the concern with the existing Market Rules that is to be addressed by the proposed Market Rule change:

Background

A Commissioning Test is a test of the ability of a generating system to operate at different levels of output reliably. Section 3.21A of the Wholesale Electricity Market (WEM) Rules (Market Rules) and the Power System Operation Procedure (PSOP): Commissioning and Testing outline the process by which Commissioning Tests are applied for, approved and conducted.

A Market Participant seeking to conduct a Commissioning Test must request permission from System Management, submitting the information required by clause 3.21A.4 ("Commissioning Test plan") to System Management for the approval of such Commissioning Tests. This includes the name and location of the facility to be tested, the Commissioning Test Period and the details of the tests to be conducted, including an indicative test program. For a new generating system that is yet to commence operation, System Management may not approve a Commissioning Test where the Commissioning Test Period is greater than four months.

The restriction to four continuous months for the commissioning of a new generating system (including a Facility that is late entering the market) was included into the Market Rules under the Rule Change Proposal: Updates to Commissioning Provisions (RC_2009_08). This ensured that new generators would not be subject to UDAP and DDAP payments if commissioning for a four month period, thereby reducing the financial risk associated with entering the market for new facilities. The exemption applied to UDAP and DDAP payments

only, with Reserve Capacity Obligations (and the potential for Capacity Cost Refunds) applying from 1 October for late commissioning new generators.

Under the new Balancing Market arrangements deviations by a Facility from its Resource Plan¹ are no longer subject to UDAP and DDAP payments. The removal of UDAP and DDAP was in response to a number of identified inefficient behaviours created by the application of these penalties and concerns over their punitive nature. Facilities are now paid the Balancing Price for deviations away from their Net Contract Positions. Those Facilities that are dispatched Out of Merit receive Constrained On and Constrained Off Compensation. Facilities are encouraged to comply with the Dispatch Instructions issued by System Management via the IMO's compliance regime.

The new Balancing Market arrangements also require that all generating systems undertaking commissioning activities do so under an approved Commissioning Test rather than bidding directly into the Balancing Market in such a way as to enable the completion of any necessary commissioning activities². The rationale for this requirement is that commissioning activities have implications for not only System Management in maintaining power system security and reliability but also on other Market Participants via the Balancing Market. The IMO considers that transparency of these commissioning activities is important for the efficient operation of the Balancing Market and ensuring that System Management can schedule sufficient Ancillary Services during each testing activity³.

Issue

The IMO has identified that under the new Balancing Market design the current restriction of four months for the commissioning of a new generating system is no longer plausible or appropriate.

The removal under the new Balancing Market of the ability for a new generating system to make a commercial decision to commission directly in the energy market means that after the four month commissioning period a Facility that still needs to undertake any commissioning activities will be unable to do so. A Market Participant in this situation will be exposed to the potential application of Civil Penalties if they undertake commissioning activities without having an approved Commissioning Test.

The IMO considers it inappropriate to leave new generating systems without a mechanism under the Market Rules to finish their required commissioning activities and enter the market once the four month Commissioning Test window has lapsed. The result is that unless a Market Participant breaches the Market Rules and risks exposure to Civil Penalties a new generating system that requires more than four months to commission would never be able to complete its commissioning and enter the market.

¹ A Resource Plan reflects how a Market Participant intends for each of its Facilities to meet its Net Contract Position during each Trading Interval during a Trading Day

² This point is also reflected in the Rule Change Proposal: Updates to Commissioning Tests (RC_2012_12)

³ Note that in determining to make public Commissioning Test information under RC_2009_08 the IMO undertook a detailed Cost-Benefit Analysis. For further details refer to the following Market Web Site: http://www.imowa.com.au/RC_2009_08

Further, given the fundamental shift in the market's approach to ensuring that a Facility does not deviate from its expected output, the IMO does not consider a restriction on the Commissioning Test Period for a new generating system is still warranted. This is because the DDAP and UDAP penalties from which a Facility undertaking a Commissioning Test was exempted no longer exist under the new Balancing Market arrangements. Instead all variations from the Market Participant's Net Contract Position are settled at the Balancing Price. Note that a Facility undertaking a Commissioning Test will be issued an Operating Instruction by System Management and therefore not be entitled to Constrained On and Constrained Off Compensation.

Proposal

The IMO proposes to remove the current restriction of four months on Commissioning Test Periods for new generating systems. This will enable new generating systems to undertake Commissioning Tests for as long as required provided System Management can accommodate the activities.

Note that the IMO does not propose to change the current application of capacity refunds where a Facility is undertaking Commissioning Tests after 1 October of Year 3 of the Reserve Capacity Cycle.

2. Explain the reason for the degree of urgency:

The IMO proposes that this Rule Change Proposal be progressed via the Standard Rule Change Process.

3. Provide any proposed specific changes to particular Rules: (for clarity, please use the current wording of the Rules and place a ~~strikethrough~~ where words are deleted and underline words added)

3.21A.7⁴. System Management must approve a Commissioning Test Plan, unless:

- (a) in its opinion inadequate information is provided in the Commissioning Test Plan; or
- (b) in its opinion the conduct of the proposed activities to be undertaken at the proposed times would pose a threat to Power System Security or Power System Reliability; or
- ~~(c) in the case of a new generating system that is yet to commence operation, the proposed Commissioning Test Period is greater than four months; or~~

⁴ Note that the proposed amendments to clause 3.21A.7 under the Rule Change Proposal: Updates to Commissioning Test Plans (RC_2012_12) have been reflected. Further changes to the underlying drafting of this clause may occur as a result of the formal rule change process for RC_2012_12.

- (d)(c) in its opinion inadequate time to properly consider the Commissioning Test Plan has been provided, where the request has been received less than 20 Trading Days in advance of the start date of the proposed Commissioning Test.
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4. Describe how the proposed Market Rule change would allow the Market Rules to better address the Wholesale Market Objectives:

The IMO considers that the proposed removal of the four month restriction on the Commissioning Test Period for new generating systems will enable the Market Rules, as a whole, to better address Wholesale Market Objective (a). In particular, the IMO considers that by removing the restricted timeframe for Facilities undertaking Commissioning Tests under the new Balancing Market arrangements (where Facilities may not undertake commissioning activities without having an approved Commissioning Test Plan) the safety and reliability of the production of electricity by new generating systems will be promoted. Facilities will be able to ensure all relevant commissioning activities (including those required under the Technical Rules) can be completed under an approved Commissioning Test Plan. This will remove the risk that such facilities either:

- complete their commissioning activities without System Management's advanced knowledge and approval (noting that Civil Penalties would potentially be incurred); or
 - would not be available for dispatch if they have not completed the necessary commissioning activities required under the Technical Rules to obtain network access, thereby creating a "under-supply of dispatchable capacity" situation.
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5. Provide any identifiable costs and benefits of the change:

Costs:

- There will be internal process changes required for System Management to reflect the removal of the restriction on their ability to approve a Commissioning Test Period for a new generating system greater than four months.

Benefits:

- Removal of an inappropriate restriction on the time period for new generating systems to undertake commissioning activities.
- Ensure that new generating systems that can not complete their commissioning activities within the four month window are not precluded indefinitely from entering the market and making their capacity available for dispatch.