



INDEPENDENT  
MARKET  
OPERATOR

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## Draft Rule Change Report

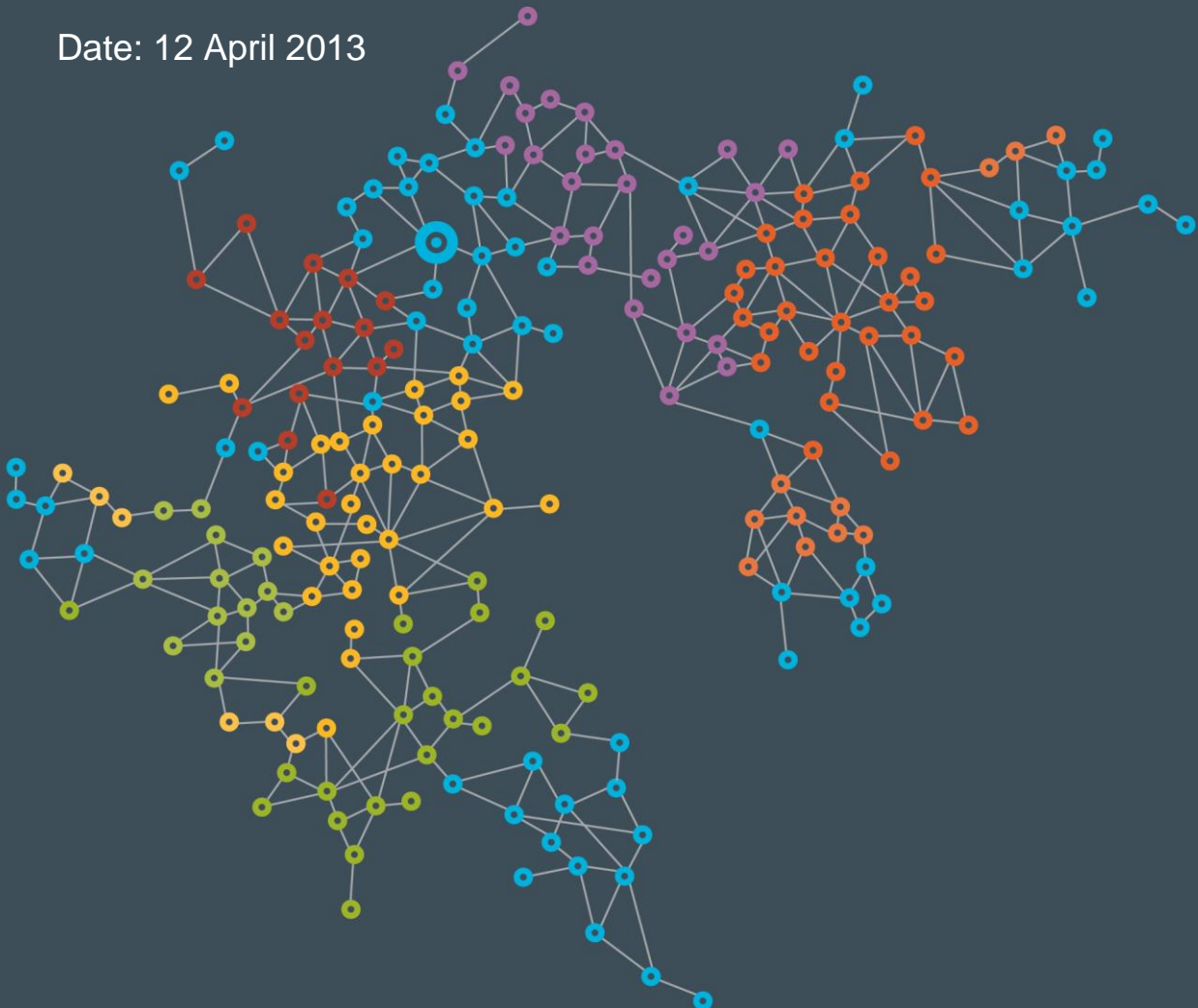
### Title: Consideration of Network constraints for Certified Reserve Capacity

RC\_2012\_20

Standard Rule Change Process

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Date: 12 April 2013



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## Executive Summary

### ***Proposed amendments***

For the 2014/2015 Capacity Year, the IMO received applications for Certified Reserve Capacity where a single Arrangement for Access, incorporating a single declared sent out capacity (DSOC) was shared between one Scheduled Generator and one new Intermittent Generator. In this instance, the IMO was required to assign Certified Reserve Capacity to both Facilities such that the total Certified Reserve Capacity exceeded the total DSOC for the shared access contract.

This outcome suggested that the contribution which could be made by these Facilities in satisfying the Reserve Capacity Requirement was greater than the capacity for which Western Power could guarantee access to the network. The IMO considered that this outcome could pose a risk to the safe and reliable production and supply of electricity, and may mean customers are paying for a greater level of capacity that can actually be delivered. In light of this, the IMO proposed to amend Clause 4.11.1 so that DSOC limitations were applied in the assessments of Certified Reserve Capacity for all Facilities, including situations where a DSOC was shared by multiple Facilities.

### ***Consultation***

The Pre Rule Change Proposal was discussed by the Market Advisory Committee (MAC) at the 12 December 2012 meeting. MAC members agreed that the proposal should be submitted into the formal rule change process.

The first submission period for this Rule Change Proposal was held between 22 January 2013 and 6 March 2013. Submissions were received from Collgar Wind Farm, Community Electricity, Perth Energy, System Management and Synergy.

Community Electricity, Perth Energy, System Management and Synergy supported the Rule Change Proposal on the grounds that it would promote Power System Security and Power System Reliability. Collgar Wind Farm noted its intent to support the proposal provided that a “first in best dressed” allocation methodology would be employed in the certification of Reserve Capacity. In addition, Synergy queried what methodology the IMO was intending to use when assigning Certified Reserve Capacity to Facilities sharing a DSOC.

During the first submission period, Western Power informally advised the IMO that there was a distinct difference between “connection point” and “DSOC.” Western Power noted that two Facilities could have separate connection points but still share a DSOC under the Electricity Networks Access Code.

### ***Assessment against Wholesale Market Objectives***

The IMO considers that the proposed amendments would better achieve Wholesale Market Objective (a) and (d) and are consistent with the remaining Wholesale Market Objectives.

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

The IMO has not identified any additional costs associated with implementing this proposal or any other issues with the practicality of implementation. The IMO will have to make changes to the relevant Market Procedure; however these costs will be within the IMO’s normal operational budget.

### ***The IMO's proposed decision***

The IMO's proposed decision is to accept the Rule Change Proposal as modified following the first submission period.

### ***Next steps***

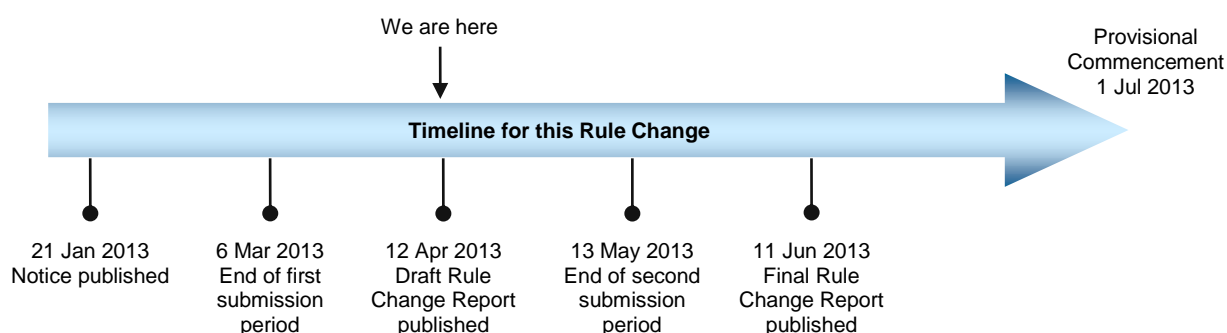
The IMO now invites interested stakeholders to make submissions on this Draft Rule Change Report by **5:00 pm, 13 May 2013**.

## 1. Rule Change Process and Timetable

On 21 January 2013 the IMO submitted a Rule Change Proposal regarding amendments to clause 4.11.1 of the Wholesale Electricity Market Rules (Market Rules).

This proposal is being processed using the Standard Rule Change Process, described in clause 2.7 of the Market Rules. In accordance with clause 2.5.10 of the Market Rules, the IMO decided to extend the timeframe for preparation of the Draft Rule Change Report. Further details of the extension are available on the Market Web Site: [http://imowa.com.au/RC\\_2012\\_20](http://imowa.com.au/RC_2012_20).

The key dates in processing this Rule Proposal are:



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

## 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, 13 May 2013**.

The IMO prefers to receive submissions by email (using the submission form available on the Market Web Site: <http://www.imowa.com.au/rule-changes>) to: [market.development@imowa.com.au](mailto: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, Development and Capacity  
PO Box 7096  
Cloisters Square, PERTH, WA 6850  
Fax: (08) 9254 4399

### **3. Proposed Amendments**

#### **3.1. The Rule Change Proposal**

When planning the Network in accordance with the Technical Rules, Western Power assumes that both existing and new generators only export up to their declared sent out capacity (DSOC). The DSOC for a generator may or may not be determined from a technical limitation on the Network but, in any event, Western Power does not guarantee the availability of capacity for generators to export above their DSOC.

For the 2014/2015 Capacity Year, the IMO received applications for Certified Reserve Capacity where a DSOC was shared between one Scheduled Generator and one new Intermittent Generator. In this instance, the IMO was required to assign Certified Reserve Capacity to both Facilities such that the total Certified Reserve Capacity exceeded the total DSOC allowed under the shared access contract.

This outcome suggested that the contribution which could be made by these Facilities in satisfying the Reserve Capacity Requirement was greater than the capacity for which Western Power could guarantee access to the network. The IMO considered that this outcome could pose a risk to the safe and reliable production and supply of electricity.

In light of this scenario, the IMO proposed to amend Clause 4.11.1 so that DSOC limitations were applied in the assessments of Certified Reserve Capacity for all Facilities, including the scenario where a DSOC was shared by multiple Facilities.

For full details of the Rule Change Proposal please refer to the Market Web Site: [http://www.imowa.com.au/RC\\_2012\\_20](http://www.imowa.com.au/RC_2012_20)

#### **3.2. The IMO's Initial Assessment of the Rule Change Proposal**

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

## 4. Consultation

### 4.1. The Market Advisory Committee

Mr Greg Ruthven presented an overview of the IMO's Pre Rule Change Proposal to the Market Advisory Committee (MAC) at the 12 December 2012 meeting. The following discussion ensued:

- Mr John Rhodes queried what process the IMO would employ in allocating Capacity Credits to two Facilities which shared the same DSOC. Mr Ruthven responded that he was not sure if the IMO could envisage all scenarios at this point of time.
- Mr Wayne Trumble questioned whether this issue was borne out of the Network Operator overselling connections. Mr Ruthven replied that it is possible for a generator to have more capacity than nominated in the declared DSOC at its connection point.
- Mr Andrew Everett noted that he could not see how the current situation imposed any security or reliability issues to the South West interconnected system (SWIS). Mr Everett further noted that he believed having a greater quantity 'sitting behind' a DSOC would in fact be more conducive in maintaining system reliability.
- Mr Geoff Gaston discussed whether the parties involved in sharing the DSOC could initiate their own commercial arrangements with each other and subsequently provide that information to the IMO. Discussion ensued and it was agreed that this was implicit in the network agreement entered into by the parties.

The MAC agreed that the Rule Change Proposal should be submitted into the formal process.

Further details are available in the MAC meeting minutes available on the Market Web Site: <http://www.imowa.com.au/MAC>

### 4.2. Submissions received during the first submission period

The first submission period for this Rule Change Proposal was held between 22 January 2013 and 6 March 2013. Submissions were received from Collgar Wind Farm, Community Electricity, Perth Energy, System Management and Synergy.

The majority of submitters (Community Electricity, Perth Energy, System Management and Synergy) supported the Rule Change Proposal on the grounds that it would promote Power System Security and Power System Reliability. Collgar Wind Farm noted its intent in supporting the proposal provided that a "first in best dressed" allocation methodology would be employed in the certification of Reserve Capacity process. In addition, Synergy queried what methodology the IMO intended to use in assigning Certified Reserve Capacity and suggested that this methodology be made transparent and open for consultation to Market Participants.

During the first submission period, Western Power informally advised the IMO that there was a distinct difference between "connection point" and "DSOC". Western Power advised the IMO that two Facilities could in fact have separate connection points but share a DSOC under the Electricity Networks Access Code<sup>1</sup>. In light of this, the IMO has amended the drafting of the proposed

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<sup>1</sup> The Electricity Networks Access Code is available: [http://www.finance.wa.gov.au/cms/uploadedFiles/Public\\_Utility\\_Office/Energy\\_Initiatives/Current\\_Electricity\\_Networks\\_Access\\_Code\\_2004.pdf](http://www.finance.wa.gov.au/cms/uploadedFiles/Public_Utility_Office/Energy_Initiatives/Current_Electricity_Networks_Access_Code_2004.pdf)

amendments.

#### **4.3. Further consultation after the first submission period**

Following the end of the first submission period the IMO spoke to Collgar regarding some concerns that were raised in its submission. During these discussions the IMO was able to clarify that the proposed amendments apply in situations where multiple Facilities are covered by a single Arrangement for Access and in particular share a common DSOC under that contractual arrangement. Although they are covered by a single access contract, the Facilities may be registered to different Market Generators under the Market Rules. In these situations, the IMO considers that the party holding the access contract with the Network Operator is the effective “owner” of the shared DSOC. The proposed amendments effectively require this party to divide the DSOC between the relevant Facilities for the purposes of certification, so that each Facility can present a distinct “level of unconstrained access” under clause 4.10.1(bA). It would be inappropriate for the IMO to decide how the DSOC is to be allocated as this is a commercial decision for the contract holder.

The IMO expects that the information provided under clause 4.10.1(bA) for a Facility subject to a shared DSOC would include the level of unconstrained access for that Facility (equivalent to the Facility’s share of the DSOC) and where the Market Participant was not the holder of the access contract, evidence of a contractual arrangement with the access contract holder regarding the allocation of that share. If the total of the access quantities provided for the relevant Facilities exceeded the total DSOC the IMO would require the contract holder to resolve the discrepancy. Until this occurred the IMO would consider that the requirement under clause 4.10.1(bA) had not been met for any of the Facilities involved.

Following the IMO’s clarification, Collgar agreed that the allocation of DSOC properly rested with the contract holder and supported the IMO’s proposed approach to the matter. The IMO proposes to make some further changes to the proposed Amending Rules to clarify the scenarios to which the amendments relate. The IMO also intends to amend the relevant Market Procedure to clarify the requirements for the certification of Facilities which share a DSOC. The IMO also notes that it does not expect that a Network Operator would amend a DSOC specified in an access contract except under the terms of that contract.

The assessment by submitting parties as to whether the proposal would better achieve the Wholesale Market Objectives is summarised below:



Submitter	Wholesale Market Objective Assessment
Collgar Wind Farm	Better achieves Wholesale Market Objective (a) and has not identified any impacts on the remaining Wholesale Market Objectives. If the “first in best dressed” methodology was applied, it would better facilitate Wholesale Market Objectives (b) and (d).
Community Electricity	Better achieves Wholesale Market Objective (a) and is consistent with the remaining Wholesale Market Objectives.
Perth Energy	Better achieves Wholesale Market Objective (a) and has not identified any impacts on the remaining Wholesale Market Objectives.
System Management	Better achieves Wholesale Market Objective (a).
Synergy	Better achieves Wholesale Market Objective (a) and is not inconsistent with the remaining Wholesale Market Objectives.

A copy of all submissions received during the first submission period is available on the Market Web Site: [http://www.imowa.com.au/RC\\_2012\\_20](http://www.imowa.com.au/RC_2012_20)

#### 4.4. The IMO’s response to submissions received during the first submission period

The IMO’s response to each of the issues identified during the first submission period is presented in the table over the page.

	Submitter	Comment/Change Requested	IMO's Response
1	Collgar Wind Farm	Collgar is concerned with the lack of clarity around how the IMO intends to apportion Certified Reserve Capacity to Facilities sharing connection points. Given the significant implications to the funding and commercial sustainability of generators, Collgar believes that the allocation methodology should be established now and be included in this Rule Change Proposal.	Please refer to section 4.3 above.
2	Collgar Wind Farm	Collgar holds the firm view that the DSOC at a shared connection point should be allocated on a "first in best dressed" methodology. This may mean that the last connection generator will receive less Certified Reserve Capacity until the DSOC at the connection point can be increased. Collgar notes that a "first in best dressed" approach would provide certainty to existing Facilities, particularly Non-Scheduled Generators, that the level of Certified Reserve Capacity they receive cannot be compromised by a third party. In addition, Collgar notes that this approach would provide certainty for new entrant Facilities as they would be able to calculate the amount of Certified Reserve Capacity that they would be accredited. Thus, this issue is critical for investment certainty, particularly for non-scheduled, renewable energy projects.	<p>The IMO acknowledges Collgar's concerns and notes that it has had discussions with Collgar in April 2013 to clarify the intent of this Rule Change Proposal. The DSOC is a right conferred on a generator by Western Power through an access contract such as the ETAC (Electricity Transfer Access Contract). It is anticipated that the sharing of this right between generators would necessitate a contractual arrangement between those parties which would outline the terms, such as allocation of Capacity Credits and sharing of the associated tariff costs.</p> <p>This proposal would not change the IMO's consideration of runback schemes when certifying Facilities. For a Facility with a runback scheme, the IMO consults with Western Power to understand the circumstances in which runback would occur and the likelihood of those circumstances occurring, each of which can evolve over time.</p> <p>The IMO understands that some confusion may have arisen from the use of the term "connection point" in the initial Rule Change Proposal. Western Power has separately advised the IMO that two Facilities may have separate connection points but share a DSOC under the Electricity Networks Access Code. The IMO has subsequently clarified this distinction in this Draft Rule Change Report and apologises for any confusion caused.</p>

	Submitter	Comment/Change Requested	IMO's Response
3	Collgar Wind Farm	Collgar is extremely concerned that a situation could develop where a generator could lose Certified Reserve Capacity due to no fault of its own. In a theoretical situation where a Non Scheduled Generator shared a connection point with a Scheduled Generator which subsequently increased its capacity above the connection point's DSOC, the Non Scheduled Generator could, under any allocation methodology other than "first in best dressed", be penalised. In light of this, Collgar is concerned that these circumstances could have a detrimental impact on Non Scheduled Generators financially as well as lead to a breach in existing contractual obligations.	The IMO acknowledges Collgar's concerns and notes that it has had discussions with Collgar in April 2013 to clarify the intent of this Rule Change Proposal. Please see section 4.3 for further information.
4	Collgar Wind Farm	Collgar would like to take this opportunity to highlight the increase in regulatory risk which may arise for generators and their financiers as a consequence of progressing rule changes of this nature.	Please refer to the IMO's response to issue two.
5	Synergy	Synergy notes that the proposed rule change provides no guidance of how the IMO will respond to the range of circumstances which it may face in assigning Certified Reserve Capacity to Facilities sharing a connection point. Synergy suggests, in order to provide transparency to the market, that the IMO develop and include procedural steps in the Market Procedure: Certification of Reserve Capacity to address this issue. This would then allow Market Participants the formal opportunity to communicate their views and suggestions through the consultation process.	Please refer to the IMO's response to issue one.

#### **4.5. Public Forums and Workshops**

No public forums or workshops were held with regard to this Rule Change Proposal.

### **5. The IMO's Draft 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. A summary of the views expressed in submissions and by the MAC is available in section 4 of this report.

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

#### **5.1. Additional Amendments to the proposed Amending Rules**

Following the first public submission period the IMO has made some additional changes to the proposed Amending Rules to:

- clarify the distinction between a DSOC and connection point; and
- modify the cross referencing in clause 4.11.2(b) to improve the integrity of the Amending Rules.

The changes the IMO made to the Amending Rules presented in the Rule Change Proposal are outlined in detail in Appendix 1 of this Draft Rule Change Report.

#### **5.2. Wholesale Market Objectives**

The IMO considers that the Market Rules as a whole, if amended as presented in section 7, will not only be consistent with the Wholesale Market Objectives but also allow the Market Rules to better Wholesale Market Objectives (a) and (d).

The IMO's assessment is presented below:

(a) *to promote the economically efficient, safe and reliable production and supply of electricity and electricity related services in the South West Interconnected System.*

(d) *to minimise the long-term cost of electricity supplied to customers from the South West interconnected system.*

The IMO considers that the proposed changes will ensure that the network access arrangements, including constraints, will be more accurately reflected in the assignment of Certified Reserve Capacity to Facilities. This would facilitate and improve the reliability of the SWIS and thus promote Wholesale Market Objective (a). In addition the IMO considers that the proposed amendments would facilitate the achievement of Wholesale Market Objective (d) by minimising the long term cost of electricity supply by ensuring that customers are not paying for more capacity than what can actually be delivered.

The IMO considers that the proposed amendments are also consistent with the remaining Wholesale Market Objectives.

### **5.3. Practicality and cost of implementation**

#### **5.3.1. Cost:**

No significant costs associated with implementing the proposed changes have been identified. The IMO will have to make changes to the relevant Market Procedure; however these costs will be within the IMO's normal operational budget.

#### **5.3.2. Practicality:**

The IMO does not consider that there are any issues with the practicality of implementation of the proposed changes.

## **6. The IMO's Proposed Decision**

The IMO's proposed decision is to accept the Rule Change Proposal as modified by the amendments outlined in section 5.1 and specified in Appendix 1.

### **6.1. Reasons for the decision**

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

- better achieve Wholesale Market Objective (a) and (d);
- are consistent with the remaining Wholesale Market Objectives;
- have the general support of the MAC; and
- have the general support of submissions received during the first submission period.

## **7. Proposed Amending Rules**

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

4.11.1. Subject to clauses 4.11.7 and 4.11.12, the IMO must apply the following principles in assigning a quantity of Certified Reserve Capacity to a Facility for the Reserve Capacity Cycle for which an application for Certified Reserve Capacity has been submitted in accordance with clause 4.10:

...

(b) where the Facility is a generation system (other than an Intermittent Generator), the Certified Reserve Capacity must not exceed the sum of the capacities specified in clauses 4.10.1(e)(ii) and 4.10.1(e)(iii), ~~and;~~

(bA) where the Facility is a generation system, the Certified Reserve Capacity must not exceed the unconstrained level of network access as provided in clause 4.10.1(bA); and

(bB) where two or more generation Facilities share a Declared Sent Out Capacity, the total quantity of Certified Reserve Capacity assigned to those Facilities must not exceed the Declared Sent Out Capacity;

...

4.11.2. Where an applicant submits an application for Certified Reserve Capacity, in accordance with clause 4.10, and nominates under clause 4.10.1(i) to have the IMO use the methodology described in clause 4.11.2(b) to apply to a Scheduled Generator or a Non-Scheduled Generator, the IMO:

(a) may reject the nomination if the IMO reasonably believes that the capacity of the Facility has permanently declined, or is anticipated to permanently decline prior to or during the Reserve Capacity Cycle to which the Certified Reserve Capacity relates;

(aA) if it rejects a nomination under clause 4.11.2(a), must process the application as if the application had nominated to use the methodology described in clause 4.11.1(a) rather than the methodology described in clause 4.11.2(b); and

(b) subject to clause 4.11.12, if it has not rejected the nomination under clause 4.11.2(a), must assign a quantity of Certified Reserve Capacity to the relevant Facility for the Reserve Capacity Cycle equal to the Relevant Level as determined in accordance with the Relevant Level Methodology, but subject to clauses 4.11.1(b), 4.11.1(bA), 4.11.1(bB), 4.11.1(c), 4.11.1(f), 4.11.1(g), 4.11.1(h) and 4.11.1(i).

## 11 Glossary

**Declared Sent Out Capacity:** Has the meaning given in Appendix 3 of the Electricity Networks Access Code 2004.

## Appendix 1. Further Amendments to the Proposed Amending Rules

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

4.11.1. Subject to clauses 4.11.7 and 4.11.12, the IMO must apply the following principles in assigning a quantity of Certified Reserve Capacity to a Facility for the Reserve Capacity Cycle for which an application for Certified Reserve Capacity has been submitted in accordance with clause 4.10:

...

- (b) where the Facility is a generation system (other than an Intermittent Generator), the Certified Reserve Capacity must not exceed the sum of the capacities specified in clauses 4.10.1(e)(ii) and 4.10.1(e)(iii);
- (bA) where the Facility is a generation system, the Certified Reserve Capacity must not exceed the unconstrained level of network access as provided in clause 4.10.1(bA); and
- (bB) where two or more generation Facilities share a ~~connection point~~ Declared Sent Out Capacity (~~as defined in the Access Code~~), the total quantity of Certified Reserve Capacity assigned to those Facilities must not exceed the Declared Sent Out Capacity;

...

4.11.2. Where an applicant submits an application for Certified Reserve Capacity, in accordance with clause 4.10, and nominates under clause 4.10.1(i) to have the IMO use the methodology described in clause 4.11.2(b) to apply to a Scheduled Generator or a Non-Scheduled Generator, the IMO:

- (a) may reject the nomination if the IMO reasonably believes that the capacity of the Facility has permanently declined, or is anticipated to permanently decline prior to or during the Reserve Capacity Cycle to which the Certified Reserve Capacity relates;
- (aA) if it rejects a nomination under clause 4.11.2(a), must process the application as if the application had nominated to use the methodology described in clause 4.11.1(a) rather than the methodology described in clause 4.11.2(b); and
- (b) subject to clause 4.11.12, if it has not rejected the nomination under clause 4.11.2(a), must assign a quantity of Certified Reserve Capacity to the relevant Facility for the Reserve Capacity Cycle equal to the Relevant Level as determined in accordance with the Relevant Level Methodology, but subject to clauses 4.11.1(b), 4.11.1(bA), 4.11.1(bB), 4.11.1(c), 4.11.1(f), 4.11.1(g), 4.11.1(h) and 4.11.1(i).

## **11 Glossary**

**Declared Sent Out Capacity:** Has the meaning given in Appendix 3 of the Electricity Networks Access Code 2004.