



INDEPENDENT
MARKET
OPERATOR

Final Rule Change Report

Title: Consideration of Network Constraints for Certified Reserve Capacity

RC_2012_20

Standard Rule Change Process

Date: 11 June 2013

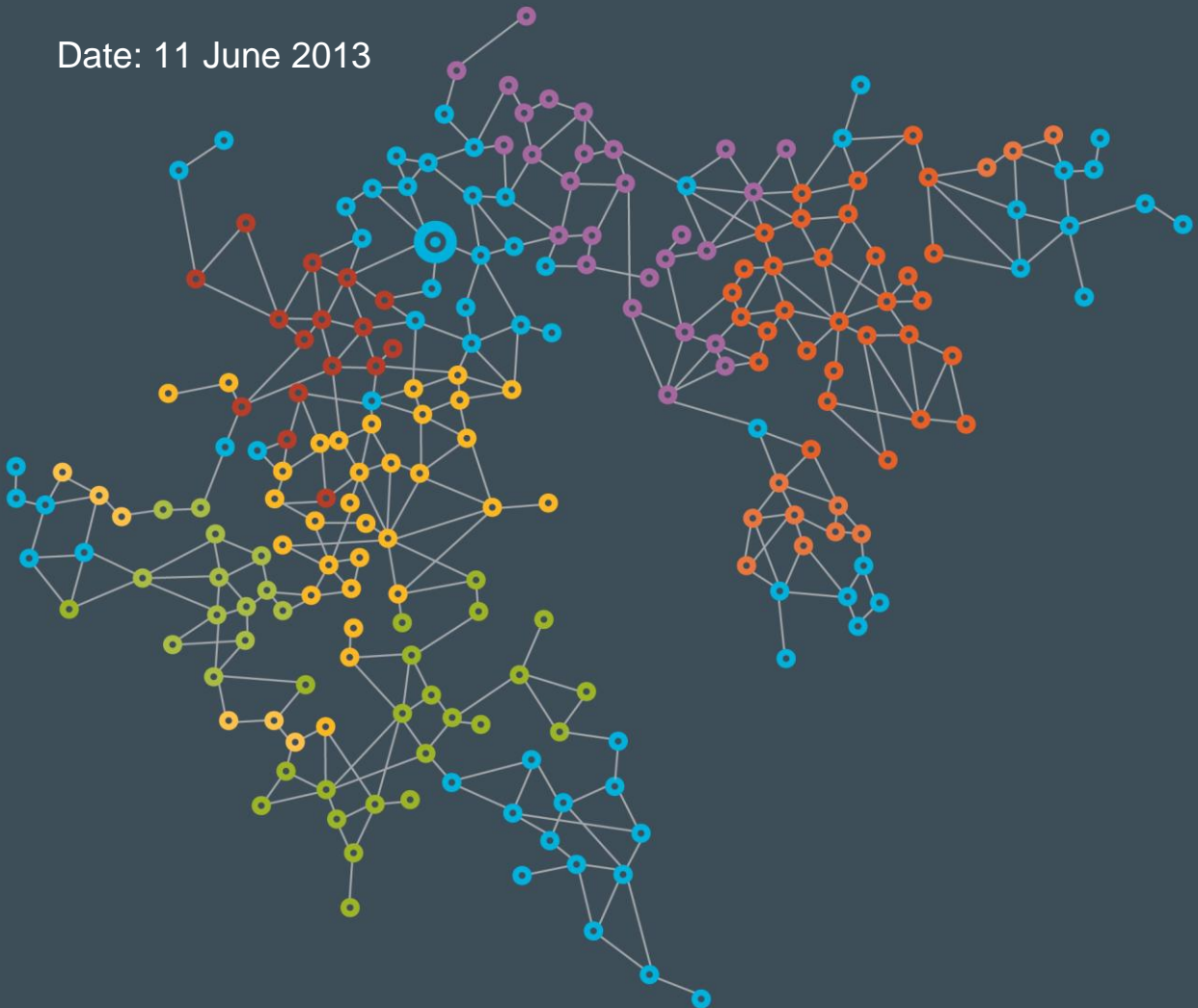


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Executive Summary

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 is 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.

The second submission period was held between 15 April 2013 and 13 May 2013. No submissions were received during this period.

Assessment against Wholesale Market Objectives

The IMO considers that the proposed amendments would better achieve Wholesale Market Objectives (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's Decision

The IMO's decision is to accept the Rule Change Proposal as modified following the first and second submission periods.

Next Steps

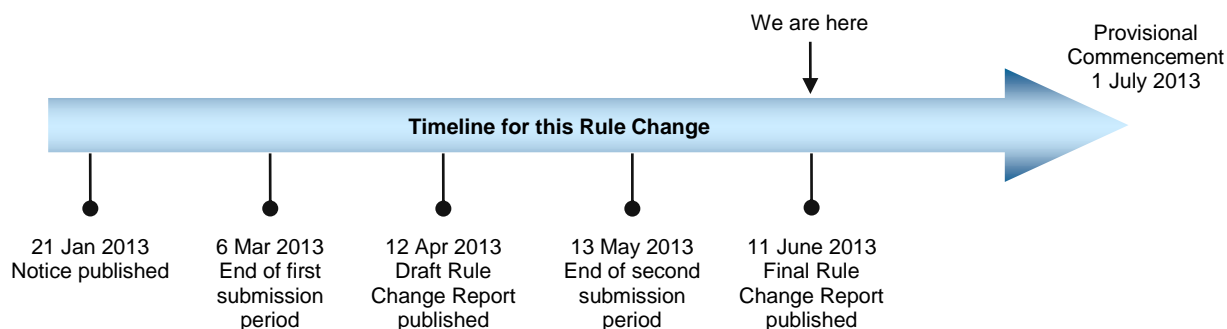
The Amending Rules will provisionally commence at **8.00 AM on 1 July 2013**.

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://www.imowa.com.au/RC_2012_20.

The key dates in processing this Rule Change Proposal, as amended in the extension notice, are:



2. Proposed Amendments

2.1. 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 Arrangement for Access.

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 are 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.

2.2. The IMO's Initial Assessment of the Proposal

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

3. Consultation

3.1. 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 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>.

3.2. 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 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.

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.

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 Code¹. In light of this, the IMO amended the drafting of the proposed amendments.

3.3. 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 considered 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

¹ 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.

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 also noted that it did not expect that a Network Operator would amend a DSOC specified in an access contract, other than in accordance with the terms of that contract.

The IMO noted in the Draft Rule Change Report that amendments to the Market Procedure for Certification of Reserve Capacity would be undertaken by the IMO to align the proposed amendments with the certification process. After further consideration the IMO determined that amending the Market Procedure was not required and that it was more appropriate to include relevant details in the Information for Applicants guide available on the Market Web Site: <http://imowa.com.au/crc>.

3.4. The IMO's response to submissions received during the first submission period

The IMO's response to submissions received during the first submission period is detailed in Section 4.4 of the Draft Rule Change Report, available on the Market Web Site: http://www.imowa.com.au/RC_2012_20.

3.5. Submissions received during the second submission period

The second submission period was held between 15 April 2013 and 13 May 2013. No submissions were received during the second submission period.

3.6. Public Forums and Workshops

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

4. The IMO's Draft Assessment

The IMO's draft assessment, against clauses 2.4.2 and 2.4.3 of the Market Rules, and analysis of the Rule Change Proposal can be viewed in the Draft Rule Change Report available on the Market Web Site: http://www.imowa.com.au/RC_2012_20.

5. The IMO's Proposed Decision

The IMO's proposed decision was to accept the Rule Change Proposal in a modified form. The wording of the relevant Amending Rules was presented in section 7 of the Draft Rule Change Report.

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

- better achieve Wholesale Market Objectives (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.

6. 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.

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 3 of this report.

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

6.1. Additional Amendments to the Amending Rules

Following the first public submission period the IMO 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 the Draft Rule Change Report, available on the Market Web Site: http://www.imowa.com.au/RC_2012_20.

Following the second public submission period the IMO made an additional change to the proposed Amending Rules to correct a minor grammatical error. This change is shown in Appendix 1 of this report.

6.2. Wholesale Market Objectives

The IMO considers that the Market Rules as a whole, if amended as presented in section 8, will not only be consistent with the Wholesale Market Objectives but also allow the Market Rules to better achieve 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 will 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 can actually be delivered.

6.3. Practicality and Cost of Implementation

6.3.1. Cost:

No significant costs associated with implementing the proposed changes have been identified.

6.3.2. Practicality:

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

7. The IMO's Decision

The IMO's decision is to accept the Rule Change Proposal as modified following the first and second submission periods.

7.1. Reasons for the decision

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

- better achieve Wholesale Market Objectives (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.

8. Amending Rules

8.1. Commencement

The amendments to the Market Rules resulting from this Rule Change Proposal will provisionally commence at **8.00 am on 1 July 2013**.

8.2. Amending Rules

The IMO has decided to implement the following Amending Rules (~~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);

(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).

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 a minor grammatical amendment to the Amending Rules following the second submission period. The change is as follows: ~~(deleted 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 Declared Sent Out Capacity, the total quantity of Certified Reserve Capacity assigned to those Facilities must not exceed the Declared Sent Out Capacity;

...