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MARKET  
OPERATOR

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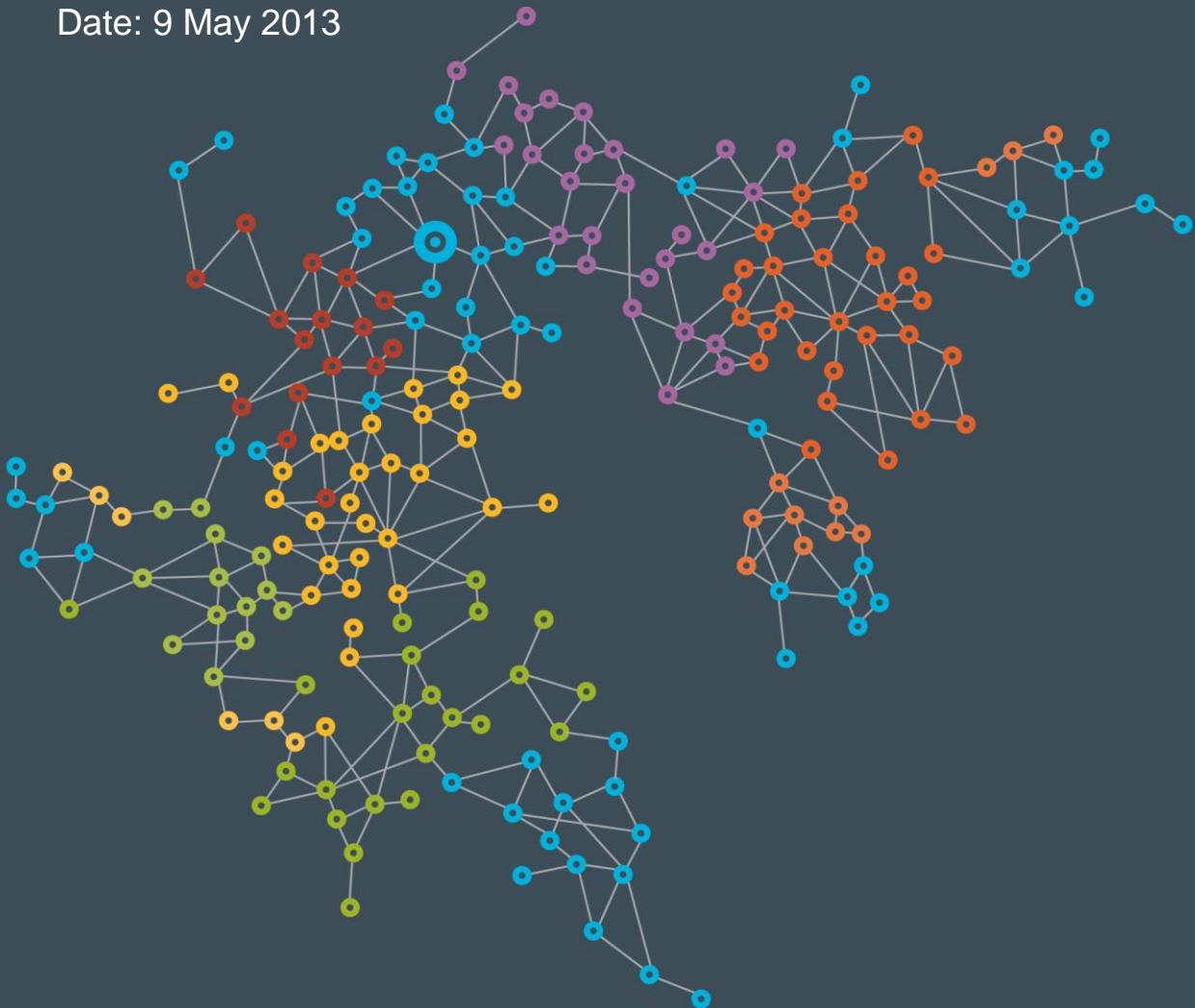
# Final Rule Change Report

## Title: LFAS Facility Definition

RC\_2013\_03  
Fast Track Rule Change Process

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Date: 9 May 2013



## TABLE OF CONTENTS

<b>1. Rule Change Process and Timetable.....</b>	<b>4</b>
<b>2. Proposed Amendments .....</b>	<b>4</b>
2.1. The Rule Change Proposal.....	4
2.2. The IMO's Initial Assessment of the Proposal.....	5
<b>3. Consultation .....</b>	<b>5</b>
3.1. The Market Advisory Committee.....	5
3.2. Submissions received during the consultation period.....	5
3.3. The IMO's response to submissions received during the consultation period.....	6
3.4. Public Forums and Workshops .....	6
<b>4. The IMO's Final Assessment.....</b>	<b>6</b>
4.1. Additional Amendments to the Amending Rules .....	6
4.2. Wholesale Market Objectives .....	6
4.3. Practicality and Cost of Implementation .....	7
<b>5. The IMO's Decision .....</b>	<b>7</b>
5.1. Reasons for the IMO's Decision.....	7
<b>6. Amending Rules.....</b>	<b>7</b>
6.1. Commencement .....	7
6.2. Amending Rules .....	7
<b>Appendix 1. Responses to Submissions received during the consultation period ..</b>	<b>10</b>
<b>Appendix 2. Further Amendments to the Proposed amending rules.....</b>	<b>14</b>

## Executive Summary

### ***Proposed Amendments***

The IMO proposes to amend the Glossary definition of LFAS Facility to include the Verve Energy Balancing Portfolio (VEBP). The IMO also proposes a number of minor amendments to related definitions and clauses to ensure they align with the extended definition.

### ***Consultation***

The IMO initially presented the pre-rule change report to the Market Advisory Committee (MAC) at the 20 March 2013 meeting. At that meeting the MAC endorsed to progress the rule change through the Fast Track Rule Change Process.

The Rule Change Proposal was formally submitted on 10 April 2013 and the consultation period was held between 11 April 2013 and 02 May 2013.

The IMO received submissions from System Management, Community Electricity, Verve Energy and Perth Energy during the consultation period. All the submissions received supported the proposed amendments.

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

The IMO considers that the proposed amendments correct a manifest error in the Market Rules and are consistent with the Wholesale Market Objectives.

Further, the IMO considers that the proposed amendments will allow the Market Rules to better address Wholesale Market Objective (c); to avoid discrimination in the market.

### ***Practicality and Cost of Implementation***

No costs have been identified with implementing these proposed changes. Likewise the IMO considers that there will be no operational impacts.

### ***The IMO's Decision***

The IMO's decision is to accept the Rule Change Proposal with minor modification from the initial Rule Change Proposal.

### ***Next steps***

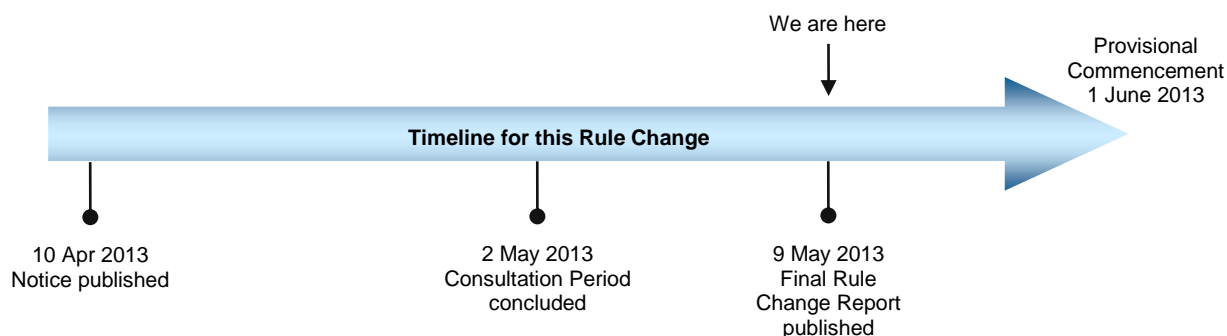
The Amending Rules will provisionally commence at **8.00 AM** on **1 June 2013**.

## 1. Rule Change Process and Timetable

On 10 April 2013 the IMO submitted a Rule Change Proposal regarding amendments to the Glossary definition of LFAS Facility to include the VEBP. The IMO also proposed a number of minor amendments to related definitions and clauses.

This proposal is being progressed using the Fast Track Rule Change Process, described in section 2.6 of the Market Rules.

The key dates in processing this Rule Change Proposal are:



The IMO's final decision is to accept the Rule Change Proposal with minor modification from the Rule Change Proposal. The detailed reasons for the IMO's decision are set out in section 5 of this report.

All documents related to this Rule Change Proposal can be found on the Market Web Site: [www.imowa.com.au/RC\\_2013\\_03](http://www.imowa.com.au/RC_2013_03)

## 2. Proposed Amendments

### 2.1. The Rule Change Proposal

The defined term "LFAS Facility" is used throughout the Market Rules. In most cases it is clear that the term is intended to cover the VEBP in addition to any applicable Verve Energy Stand Alone Facilities or Independent Power Producer (IPP) Facilities. However, the definition of LFAS Facility in the Glossary specifically excludes the VEBP, which leads to a number of absurd outcomes.

For example, clauses 7.13.1(c), (eA), (eB) and (eC) require System Management to provide the IMO with LFAS enablement quantities for "each LFAS Facility". Further, the definitions of the LF\_Up(p,t) and LF\_Down(p,t) parameters in clause 9.9.2 also refer to quantities (Ex-post Upwards LFAS Enablement and Ex-post Downwards LFAS Enablement) provided for LFAS Facilities. Taken literally, this would mean that System Management was not required to provide any LFAS enablement quantities to the IMO for the VEBP, and that any Ex-post Upwards LFAS Enablement or Ex-post Downwards LFAS Enablement quantities provided for the VEBP should be excluded from the calculation of LFAS payments. This would prevent Verve Energy from receiving any LFAS payment for the VEBP, even though it is the default supplier of Load Following Ancillary Services (LFAS) in the Wholesale Electricity Market (WEM).

A similar problem exists with the obligation on the Economic Regulatory Authority (ERA) to monitor LFAS Submission prices for breaches of clause 7B.2.15. The relevant clauses (2.16.9(b)(iii), 2.16.9B(b) and 2.16.9G(c)) all refer to "LFAS Facility". It would be absurd to exclude the VEBP from this monitoring.

The IMO considers the exclusion of the VEBP from the definition of LFAS Facility is a manifest error in the Market Rules. It should be noted that clause 7B.1.6 already extends the definition of LFAS Facility to include the VEBP, but only for the purposes of Chapter 7B.

## 2.2. The IMO's Initial Assessment of the Proposal

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

Clauses 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 IMO considers that this Rule Change Proposal corrects a manifest error in the Market Rules. The current definition of LFAS Facility has a number of absurd implications, for example that Verve Energy should receive no payment for providing LFAS through the VEBP, and that VEBP LFAS Submission prices should not be subject to ERA monitoring.

## 3. Consultation

### 3.1. The Market Advisory Committee

The Market Advisory Committee (MAC) discussed the proposed changes during the 20 March 2013 meeting.

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 consultation period

The consultation period for this Rule Change Proposal was between 11 April 2013 and 2 May 2013.

The IMO received submissions from the following parties:

Submitter	Wholesale Market Objective Assessment
Community Electricity	Better achieves Wholesale Market Objective (c)
Perth Energy	Better achieves Wholesale Market Objective (b) and (d)
System Management	Clarifies the existing Rules
Verve Energy	Better achieves Wholesale Market Objective (c) and is consistent with all other Objectives.

A copy of all submissions received during the consultation period is available on the Market Web Site: [http://www.imowa.com.au/RC\\_2013\\_03](http://www.imowa.com.au/RC_2013_03)

### **3.3. The IMO's response to submissions received during the consultation period**

The IMO's responses to each of the issues identified during the consultation period are presented in Appendix 1 of this Final Rule Change Report.

### **3.4. Public Forums and Workshops**

No public workshop was held in regard to this Rule Change Proposal.

## **4. 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 nor has it commissioned a technical review in respect to this Rule Change Proposal. A summary of the views expressed in submissions and by the MAC is available in section 3 of this Final Rule Change Report. The IMO's assessment of the Rule Change Proposal is outlined in the following sub-sections.

### **4.1. Additional Amendments to the Amending Rules**

Following the public consultation period the IMO made some additional changes to the proposed Amending Rules to:

- reflect suggestions received from Verve Energy and System Management during the submission period; and
- improve the consistency of the Rule Change drafting.

Changes from the initial Rule Change Proposal are presented in Appendix 2.

### **4.2. Wholesale Market Objectives**

The IMO considers that the proposed amendments correct a manifest error in the Market Rules and are consistent with the Wholesale Market Objectives.

Further, the IMO considers that the proposed amendments will allow the Market Rules to better address Wholesale Market Objective (c); to avoid discrimination in the market.

The current definition of an LFAS Facility implies that Verve Energy should not be paid for providing LFAS through the VEBP, which clearly discriminates against Verve Energy. The IMO therefore considers that correction of the manifest error will better achieve Wholesale Market Objective (c).

### **4.3. Practicality and Cost of Implementation**

#### **4.3.1. Cost:**

No submitting party identified any associated costs with this Rule Change.

#### **4.3.2. Practicality:**

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

## **5. The IMO's Decision**

Based on the matters set out in this report, the IMO's final decision is to accept the Rule Change Proposal.

### **5.1. Reasons for the IMO's Decision**

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

- will allow the Market Rules to better achieve Wholesale Market Objective (c);
- are consistent with the remaining Wholesale Market Objectives;
- have the support of the MAC; and
- have the support of the submissions received during the consultation period.

Additional detail outlining the analysis behind the IMO's decision is captured in section 4 of this Final Rule Change Report.

## **6. Amending Rules**

### **6.1. Commencement**

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

### **6.2. Amending Rules**

The IMO has determined to implement the following Amending Rules (~~deleted text~~, added text):

~~7B.1.6. For the purposes of this Chapter 7B only, unless otherwise indicated, the Verve Energy Balancing Portfolio is to be treated as a single LFAS Facility and references in this~~

~~Chapter 7B to an LFAS Facility are to be read as including a reference to the Verve Energy Balancing Portfolio.~~

7B.2.10. A Market Participant with an LFAS Facility, ~~and Verve Energy in respect of the Verve Energy Balancing Portfolio~~, must ensure that any LFAS Submission for a Trading Interval in an LFAS Horizon for which LFAS Gate Closure has not occurred accurately reflects:

- (a) all information reasonably available to it;
- (b) the Market Participant's reasonable expectation of the capability of the LFAS Facility to provide the LFAS to the LFAS Market; and
- (c) the price at which the Market Participant intends to have the LFAS Facility provide LFAS.

**Downwards LFAS Enablement:** Means, for an LFAS Facility ~~Scheduled Generator, a Non-Scheduled Generator and the Verve Energy Balancing Portfolio~~, the capacity, or that part of the capacity, in MW, in an LFAS Downwards Price-Quantity Pair selected under clause 7B.3.4(c) which is associated with that Facility or with the Verve Energy Balancing Portfolio, as applicable.

**LFAS Downwards Price-Quantity Pair:** Means for an LFAS Facility ~~and for the Verve Energy Balancing Portfolio~~:

- (a) the specified non-Loss Factor adjusted capacity, in MW, by which a Market Participant is prepared to have its LFAS Facility, ~~or the Verve Energy Balancing Portfolio, as applicable~~, activated downwards within a Trading Interval; and
- (b) the non-Loss Factor Adjusted Price, in \$/MW, the Market Participant wants to be paid to have that capacity available within that Trading Interval.

**LFAS Facility:** Means:

- ~~(a) a Facility that a Market Participant has indicated in Appendix 1(j)(i) of Standing Data is intended to participate in the LFAS Market; and~~
- ~~(b) either:~~
  - ~~i. for a Market Participant other than Verve Energy, each Scheduled Generator and Non-Scheduled Generator for which LFAS Standing Data has been accepted by the IMO; or~~
  - ~~ii. each Stand Alone Facility for which LFAS Standing Data has been accepted by the IMO.~~
- (a) a Stand Alone Facility, or Scheduled Generator or Non-Scheduled Generator registered to a Market Participant other than Verve Energy, for which:
  - i. the relevant Market Participant has indicated in Appendix 1(j)(i) of Standing Data is intended to participate in the LFAS Market; and
  - ii. LFAS Standing Data has been accepted by the IMO; or



(b) the Verve Energy Balancing Portfolio.

**LFAS Market:** Means the market operated under Chapter 7B in which LFAS Facilities, ~~including the Verve Energy Balancing Portfolio as a single Facility~~, can provide Load Following Services.

**LFAS Upwards Price-Quantity Pair:** Means for an LFAS Facility ~~and for the Verve Energy Balancing Portfolio~~:

- (a) the specified non-Loss Factor adjusted capacity, in MW, by which a Market Participant is prepared to have its LFAS Facility, ~~or the Verve Energy Balancing Portfolio, as applicable~~, activated upwards within a Trading Interval;
- (b) the non-Loss Factor Adjusted Price, in \$/MW, the Market Participant wants to be paid to have that capacity available within that Trading Interval.

**Upwards LFAS Enablement:** Means, for an LFAS Facility ~~Scheduled Generator, a Non-Scheduled Generator and the Verve Energy Balancing Portfolio~~, the capacity, or that part of the capacity, in MW, in an LFAS Upwards Price-Quantity Pair selected under clause 7B.3.4(b) which is associated with that Facility or with the Verve Energy Balancing Portfolio, as applicable.

## Appendix 1. Responses to Submissions received during the consultation period

	Submitter	Comment/Change Requested	IMO's Response
1.	Verve Energy	<p>Verve Energy is concerned that the proposed drafting of the definition could exclude a Stand Alone Facility from being classed as an LFAS Facility.</p> <p>Verve Energy considers that part (a) of the proposed definition is supposed to be read as covering two distinct parts i.e. "a Scheduled Generator or a Non-Scheduled Generator registered to a Market Participant other than Verve Energy" or a "Stand Alone Facility". However, Verve Energy is concerned that the "other than" statement in part (a) of the definition could be read to apply to both "Verve Energy" and a "Stand Alone Facility", which is clearly not the intent.</p>	<p>The IMO notes Verve Energy's suggestion and has amended the defined term "LFAS Facility" to remove ambiguity from the drafting.</p>
2.	Verve Energy	<p>The definitions for Backup Downwards LFAS Price and Backup Upwards LFAS Price refer to the cost referred to in clause 7B.2.6 for Verve Energy providing the Downwards or Upwards LFAS Backup Enablement. Clause 7B.2.6 then notes that Verve Energy, in its LFAS Submission for the VEBP, must include a cost for providing any Downwards LFAS Backup Enablement and Upwards LFAS Backup Enablement. This clause does not include the provision of a cost for providing any Downwards LFAS Backup Enablement and Upwards LFAS Backup Enablement for a Stand Alone Facility.</p> <p>Clause 7B.2.1 notes that a Market Participant may submit an LFAS Submission for any LFAS Facility (other than the VEBP) in accordance with clause 7B.2.7 of the Market Rules. This is the rule under which a Stand Alone Facility may submit an LFAS Submission. However, there appears to be no mechanism a Stand Alone facility to include a price to provide Downwards LFAS Backup</p>	<p>The calculation of LFAS costs is explicit in clauses 9.9.2(a) and (b).</p> <p>Using upwards LFAS costs for example, clause 9.9.2(a) states:</p> $\text{LF\_Up\_Market\_Payment}(p,t) = \text{LF\_Up}(p,t) \times \text{LF\_Up\_Price}(t) + \text{LF\_Up\_Backup}(p,t) \times \text{LF\_Up\_Backup\_Price}(p,t)$ <p>LF_Up_Backup(p,t) is the sum of any Upwards LFAS Backup Enablement quantities for Trading Interval t if Market Participant p is Verve Energy and 0 otherwise.</p> <p>In this case any Upwards LFAS Backup Enablement refers to a "Registered Facility" of Verve Energy. Thus, a Stand Alone Facility is covered within this definition.</p> <p>LF_Up_Backup_Price(p,t) is the Backup Upwards LFAS</p>

	Submitter	Comment/Change Requested	IMO's Response
		<p>Enablement and Upwards LFAS Backup Enablement. As such, Verve Energy is concerned that is System Management used a Stand Alone Facility to provide backup LFAS, the Stand Alone Facility may not be compensated for providing such a service.</p>	<p>Price for Trading Interval t if Market Participant p is Verve Energy and 0 otherwise.</p> <p>In this case the Backup Upwards LFAS Price is defined in clause 7B.2.6. With the price being the same as the price for the VEBP.</p> <p>The IMO does not foresee any issues with the current drafting regarding this issue as Verve Energy will be paid for all backup LFAS provided whether it is through the VEBP or a Stand Alone Facility.</p>
3.	Verve Energy	<p>Clause 7B.3.7 notes that where the IMO is unable to publish an LFAS Merit Order then System Management must use the Registered Facilities of Verve Energy to provide LFAS for that Trading Interval. Verve Energy assumes that the phrase "Registered Facility of Verve Energy" means both the VEBP and any Stand Alone Facility. As outlined in issue 1 above, Verve Energy is concerned that there appears to be no mechanism for it to provide a price for a Stand Alone Facility to provide Downwards LFAS Backup Enablement and Upwards LFAS Backup Enablement. As such, Verve Energy is concerned that is System Management used a Stand Alone Facility to provide backup LFAS, the Stand Alone Facility may not be compensated for providing such a service.</p>	<p>Refer to comments in point 2.</p>

	Submitter	Comment/Change Requested	IMO's Response
4.	Verve Energy	<p>Clause 7B.2.3 notes that "Subject to clause 7B.2.5, Verve Energy must immediately before 6:00 PM submit an LFAS Submission for one or more..."</p> <p>Clause 7B.2.6 states that "Verve Energy, in its LFAS Submission for the Verve Energy Balancing Portfolio..."</p> <p>Verve Energy considers that, while clause 7B.2.3 is not broken, it may benefit from the drafting being made consistent with clause 7B.2.6 - as follows <u>(added text)</u>:</p> <p><u>"Subject to clause 7B.2.5, Verve Energy must immediately before 6:00 PM submit an LFAS Submission for the Verve Energy Balancing Portfolio for one or more..."</u></p>	The IMO notes Verve's concern but believes clause 7B.2.3 adequately encompasses both the VEBP and Stand Alone Facilities.
5.	Verve Energy	The definitions of both Upwards and Downwards LFAS Enablement refer to a Scheduled Generator, a Non Scheduled Generator and the VEBP. Verve Energy questions why this clause has not been amended to refer to LFAS Facility?	The IMO agrees with Verve's suggestion and has amended the proposed drafting.
6.	Verve Energy	The definition of LFAS Market refers to "Facilities, including the VEBP as a single Facility". Verve Energy questions whether this definition should also be amended as a result of the Rule Change Proposal.	The IMO agrees with Verve's suggestion and has amended the proposed drafting.

	Submitter	Comment/Change Requested	IMO's Response
7.	System Management	<p>System Management contends the Rule Change Proposal wording (given below) could be made clearer as it suggest an LFAS Facility needs to satisfy 3 conditions simultaneously.</p> <p>LFAS Facility: Means:            (a) a Scheduled Generator or a Non-Scheduled Generator registered to a Market Participant other than Verve Energy or a Stand Alone Facility for which:                i. the relevant Market Participant has indicated in Appendix 1(j)(i) of Standing Data is intended to participate in the LFAS Market; and                ii. LFAS Standing Data has been accepted by the IMO; and            (b) the Verve Energy Balancing Portfolio.</p> <p>System Management suggests the following wording is clearer:            LFAS Facility: Means:            (a) a Scheduled Generator or a Non-Scheduled Generator registered to a Market Participant other than Verve Energy a Facility for which:                i. the relevant Market Participant has indicated in Appendix 1(j)(i) of Standing Data is intended to participate in the LFAS Market; and                ii. LFAS Standing Data has been accepted by the IMO; or            (b) the Verve Energy Balancing Portfolio. or            (c) a Stand Alone Facility for which LFAS Standing Data has been accepted by the IMO.”</p>	<p>The IMO notes the proposed suggestion from System Management.</p> <p>The IMO believes the proposed re-drafting in this report adequately removes any ambiguity from the definition of a LFAS Facility.</p>

## Appendix 2. Further Amendments to the Proposed amending rules

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

**Downwards LFAS Enablement:** Means, for an LFAS Facility ~~Scheduled Generator, a Non-Scheduled Generator and the Verve Energy Balancing Portfolio~~, the capacity, or that part of the capacity, in MW, in an LFAS Downwards Price-Quantity Pair selected under clause 7B.3.4(c) which is associated with that Facility or with the Verve Energy Balancing Portfolio, as applicable.

**LFAS Facility:** Means:

- (a) a Stand Alone Facility, or Scheduled Generator or ~~a Non-Scheduled Generator~~ registered to a Market Participant other than Verve Energy, ~~or a Stand Alone Facility~~ for which:
  - i. the relevant Market Participant has indicated in Appendix 1(j)(i) of Standing Data is intended to participate in the LFAS Market; and
  - ii. LFAS Standing Data has been accepted by the IMO; ~~and or~~
- (b) the Verve Energy Balancing Portfolio.

**LFAS Market:** Means the market operated under Chapter 7B in which LFAS Facilities, ~~including the Verve Energy Balancing Portfolio as a single Facility~~, can provide Load Following Services.

**Upwards LFAS Enablement:** Means, for an LFAS Facility ~~Scheduled Generator, a Non-Scheduled Generator and the Verve Energy Balancing Portfolio~~, the capacity, or that part of the capacity, in MW, in an LFAS Upwards Price-Quantity Pair selected under clause 7B.3.4(b) which is associated with that Facility or with the Verve Energy Balancing Portfolio, as applicable.