



INDEPENDENT
MARKET
OPERATOR

Final Rule Change Report

Title: Exclusion of LFAS Quantities from Daily Ancillary Service Files

RC_2013_06

Fast Track Rule Change Process

Date: 29 April 2013

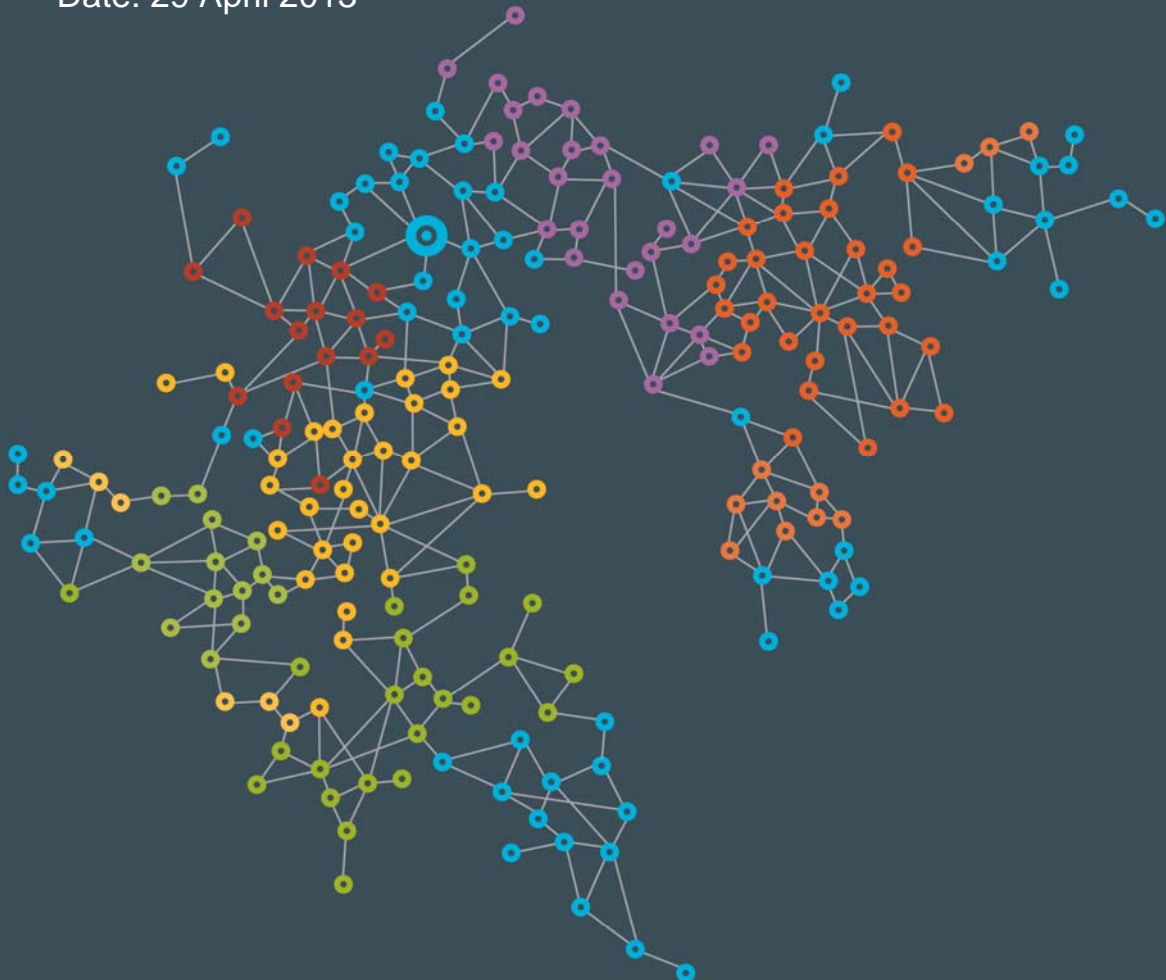


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Executive Summary

Proposed Amendments

The IMO proposes to amend clause 7.2.3A. The IMO proposes to remove the obligation on System Management to include LFAS in the Ancillary Service estimate each Scheduling Day in order to treat every Market Participant equally, regardless of whether they participate in the LFAS Market and/or the Short Term Energy Market (STEM).

The proposed amendments by the IMO are intended to have the “least effect” on the STEM as a whole. In accordance with the Market Rules Evolution Plan published by the IMO in November 2012¹, market stakeholders voiced concerns with the STEM and its impact on the Balancing Market. As there may be future changes to the STEM as a whole, the “least effect” approach is considered by the IMO the most appropriate avenue to resolve the issue identified in RC_2013_06.

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 27 March 2013 and the consultation period was held between 28 March 2013 and 19 April 2013.

The IMO received submissions from Verve Energy, System Management, Community Electricity 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 Objectives (b) and (d).

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 without modification from the initial Rule Change Proposal.

Next steps

The Amending Rules will provisionally commence at **8.00 AM** on **15 May 2013**.

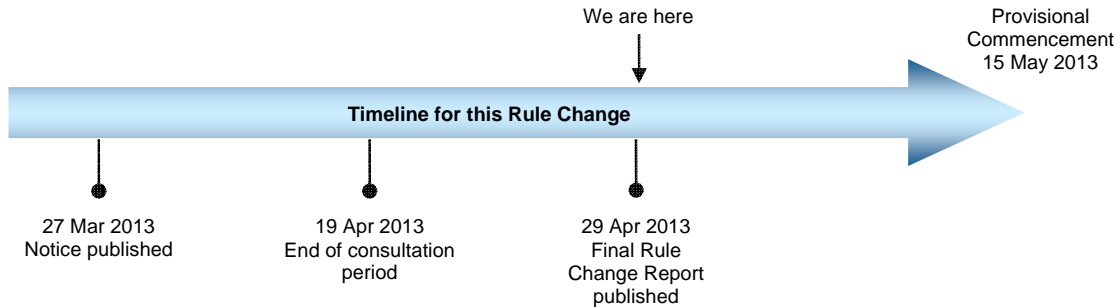
¹ http://www.imowa.com.au/f5592_3200469/Market_Rules_Evolution_Plan_2013-2016_FINAL.pdf

1. Rule Change Process and Timetable

On 27 March 2013 the IMO submitted a Rule Change Proposal regarding amendments to clause 7.2.3A of the Wholesale Electricity Market Rules (Market Rules).

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 in its proposed form. 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_06

2. Proposed Amendments

2.1. The Rule Change Proposal

Pursuant to clause 7.2.3A System Management must by 8:30 AM on each Scheduling Day determine, for each Market Participant that is a provider of Ancillary Services, an estimate of the Loss Factored adjusted MWh of energy that could be potentially called upon by System Management to meet Ancillary Service requirements for the following Trading Day.

These quantities are provided to the IMO under clause 7.2.3B and are used by the IMO to limit the Maximum Supply Capability for each Market Participant under clause 6.3A.2. Subsequently, each Market Participant must exclude these quantities from its Short Term Energy Market (STEM) Portfolio Supply Curves. Market Participants must also include these quantities in their Ancillary Service Declaration in accordance with clause 6.6.2A(c).

The estimate determined by System Management currently includes Ancillary Services consisting of Spinning Reserve, Upwards LFAS and, when required, Dispatch Support Services.

The current drafting of clause 7.2.3A was appropriate when the only provider of LFAS was Verve Energy. However, under the new LFAS Market arrangements there may be numerous Independent Power Producer (IPP) LFAS Facilities able to provide this service.

Clause 7.2.3A requires System Management to estimate the Loss Factor adjusted MWh of energy that could potentially be called upon for each Market Participant providing LFAS. At the time in which this estimate is made System Management does not know which Facilities (with the

exception of the Verve Energy Balancing Portfolio) will be providing LFAS to the market. Under the current drafting of clause 7.2.3A System Management could potentially estimate that all LFAS Facilities will provide their full upwards LFAS Capacity.

If System Management includes the full potential upwards LFAS capacity of each such Facility in its estimate then Market Participants will be unable to include this capacity in their STEM submissions. By removing such capacity from STEM submissions it is likely that the market will be required to draw on additional energy from another STEM submission(s) and/or tranche(s) at a higher price.

Market Participants may also be subjected to indirect costs, such as IT changes, if they are obligated to remove their LFAS capacity from any capacity traded in the STEM.

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 criteria 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 obligation on System Management is untenable and not practical within the conceptual design of the LFAS market. Leaving the drafting of clause 7.2.3A extant will most likely result in an unnecessary amount of capacity being removed from the STEM, potentially resulting in a higher STEM clearing price.

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 28 March 2013 and 19 April 2013.

The IMO received submissions from the following parties:

Submitter	Wholesale Market Objective Assessment
Verve Energy	None provided
System Management	Better achieves Wholesale Market Objective (b) and (d)
Perth Energy	Better achieves Wholesale Market Objective (a), (b) and (d)
Community Electricity	Better achieves Wholesale Market Objective (b) and (d)

A copy of all submissions received during the consultation period is available on the Market Web Site: http://www.imowa.com.au/RC_2013_06

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 has not made any additional changes to the proposed Amending Rules.

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 (b) and (d).

Removing a potential or perceived barrier to entry for an IPP to participate in the LFAS Market will inevitably encourage competition among generators.

Without this amendment to clause 7.2.3A System Management may be obligated to include the full potential upwards LFAS capacity of each such LFAS Facility in its estimates. This may result in Market Participants not including this capacity in their STEM submissions, which is likely to lead to higher STEM prices.

4.3. Practicality and Cost of Implementation

4.3.1. Cost:

System Management identified ongoing minor costs to be involved with some small changes to their processes.

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

4.3.2. Practicality:

The IMO does not consider that there are any major issues with the practical implementation of the proposed amendments. Verve Energy identified that the proposed amendments will have a minor impact on their IT Systems, as such the commencement date of the Rule Change has been delayed until 15 May 2013.

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 Objectives (b) and (d);
- 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 **15 May 2013**.

6.2. Amending Rules

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

- 7.2.3A. By 8:30 AM on the Scheduling Day, System Management must determine for each Market Participant that is a provider of Ancillary Services (excluding LFAS):
- (a) an estimate of the Loss Factor adjusted MWh of energy that could potentially be called upon by System Management after 1:00 PM on the Scheduling Day to meet Ancillary Service Rrequirements (excluding LFAS) for each Trading Interval of the Trading Day where these estimates must reflect the Ancillary Service standards described in clause 3.10; and
 - (b) a list of Facilities that it might reasonably expect to call upon to provide the energy described in clause 7.2.3A(a).

Appendix 1. Responses to Submissions received during the consultation period

	Submitter	Comment/Change Requested	IMO's Response
1.	Verve Energy	<p>Verve Energy will need to implement some minor IT changes to its VBA coding and spreadsheet formulas in order to implement the proposed amendments. Verve Energy considers that the costs of implementing these changes will be minor.</p> <p>In order to allow sufficient time for undertaking these IT changes and to allow sufficient time for testing Verve Energy requests that the IMO revise its proposed commencement date from 1 May 2013 to at least 15 May 2013.</p>	<p>The IMO notes Verve Energy's submission and will delay the commencement of the Rule Change until 15 May 2013.</p>
2.	System Management	<p>Just as the IMO contends that the inclusion of the Load Following Ancillary Service restrictions is a manifest error being untenable and not practical within the conceptual design of the market, System Management contends that the inclusion of any Ancillary Service restriction is a manifest error.</p> <p>System Management suggests expansion of the proposed change to remove all of the Ancillary Service components from the STEM process. System Management suggests deletion of Market rule 7.2.3A and all other references to it in Market Rules 6.3A.2, 6.3A.3 and 7.2.3B.</p>	<p>The IMO acknowledges System Management's suggestion to remove all of the Ancillary Service components from the STEM process.</p> <p>However, the analysis conducted to date looked solely at the impact of LFAS quantity data on the STEM process. As stated in the Rule Change Proposal the proposed amendments to the Market Rules are intended to have the "least effect" on the Market Rules.</p> <p>The suggestion by System Management will be considered in future changes and/or removal of the STEM market.</p>

	Submitter	Comment/Change Requested	IMO's Response
3.	Perth Energy	In relation to the proposed amendments to clause 7.2.3A Perth Energy queries the need for brackets around "excluding LFAS". Brackets normally contain information that is not essential to the meaning of the sentence but provide additional information. In this instance, the information contained in the brackets is essential.	The IMO notes Perth Energy's suggested drafting.

