

Rule Change Notice

Exclusion of LFAS Quantities from Daily Ancillary Service Files (RC_2013_06)

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

Date Submitted: 27 March 2013

Submitter: Allan Dawson, IMO

The Proposal

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 VEBP) 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, meaning these quantities would need to be excluded from the Short Term Energy Market (STEM) submissions for those facilities.

The IMO proposes to re-draft 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 STEM.

Appendix 1 contains the Rule Change Proposal and details the proposed amendments to the Market Rules.

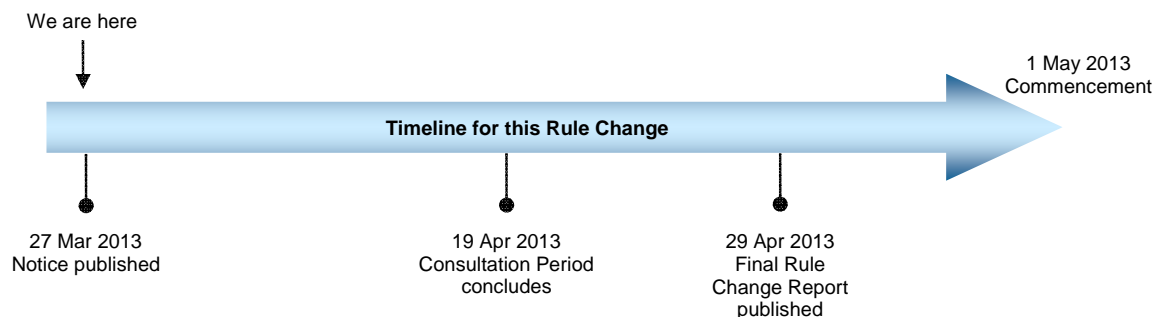
Decision to Progress the Rule Change

The IMO considers that this Rule Change Proposal corrects a manifest error in the Market Rules. The current obligation on System Management is untenable within the design of the LFAS market. In its current form, clause 7.2.3A extant may result in an unnecessary amount of capacity being removed from the STEM, potentially resulting in a higher STEM clearing price.

The IMO considers that this proposal should be progressed using the Fast Track Rule Change Process, on the grounds that it satisfies the criterion in clause 2.5.9(b) of the Market Rules.

Timeline

The projected timelines for processing this proposal are:



Call for Submissions

The IMO invites interested stakeholders to make submissions on this Rule Change Proposal. The submission period is 15 Business Days from the publication date of this Rule Change Notice. Submissions must be delivered to the IMO by **5.00pm, Friday 19 April 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

Submissions may also be sent to the IMO by fax or post, addressed to:

Independent Market Operator

Attn: Group Manager, Development & Capacity
PO Box 7096
Cloisters Square, PERTH, WA 6850
Fax: (08) 9254 4399





INDEPENDENT
MARKET
OPERATOR

Wholesale Electricity Market Pre Rule Change Proposal

Rule Change Proposal ID: RC_2013_06
Date received: 27 March 2013
Change requested by:

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Address:	Level 17, 197 St Georges Tce, Perth 6000
Date submitted:	27 March 2013
Urgency:	Fast Track
Change Proposal title:	Exclusion of LFAS Quantities from Daily Ancillary Service Files
Market Rules affected:	7.2.3A

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 Rule Change

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

Background

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.

Issue

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 Producers (IPP's) 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 VEBP) 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.

Proposal

The IMO proposes to re-draft 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 STEM.

The proposed amendment by the IMO is 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.

2. Explain the reason for the degree of urgency:

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.

The IMO deems the drafting of clause 7.2.3A as a legacy issue prior to the evolution of the Balancing and LFAS Markets.

As such, the IMO considers that this proposal should be progressed using the Fast Track Rule Change Process, on the grounds that it satisfies the criterion in clause 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*

¹ http://www.imowa.com.au/f5592.3200469/Market_Rules_Evolution_Plan_2013-2016_FINAL.pdf

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)*

- 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).

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 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.

5. Provide any identifiable costs and benefits of the change:

Costs:

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

Benefits:

- Correction of a manifest error in the Market Rules.
- Removal of a potential or perceived barrier to entry into the LFAS Market for Market Participants, specifically IPP's.