



INDEPENDENT
MARKET
OPERATOR

Final Rule Change Report Specific Transition Provisions for the 2014 Reserve Capacity Cycle

RC_2014_04
Standard Rule Change Process

Date: 20 October 2014

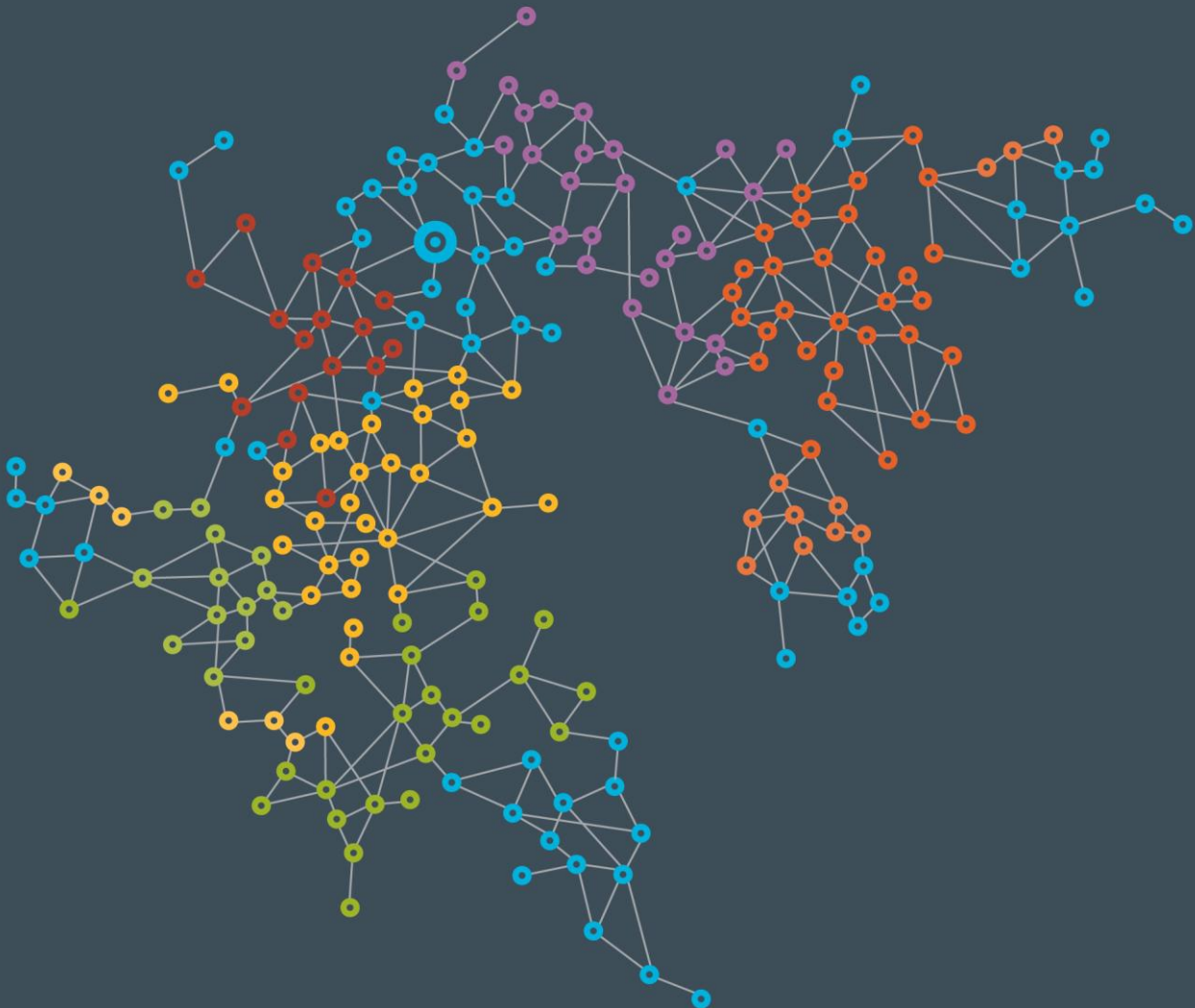


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Executive summary

On 29 April 2014, the IMO received a Ministerial Direction to defer the processes related to certification of Reserve Capacity, declaration of bilateral trades, assignment of Capacity Credits and the Reserve Capacity Auction for the 2014 Reserve Capacity Cycle by 12 months under clause 4.1.32 of the Wholesale Electricity Market (WEM) Rules (Market Rules). However, the Ministerial Direction did not direct the IMO to extend the publication date for the 2014 Electricity Statement of Opportunities Report (ESOO).

In the ESOO, the IMO is required to include the Reserve Capacity Target for each Capacity Year of the Long Term PASA (LT PASA) Study Horizon. The IMO considered that publishing the 2014 ESOO on the scheduled date (17 June 2014) with the determined Reserve Capacity Target for the 2016/17 Capacity Year may result in inefficient outcomes. This is because any updated demand forecasts that become available by the time the capacity procurement processes for the 2014 Reserve Capacity Cycle are conducted in 2015 would not be able to be included in the calculation of the Reserve Capacity Target for the 2014 Reserve Capacity Cycle. The IMO therefore decided to defer the publication of the 2014 ESOO by 12 months¹ under clause 4.1.32 of the Market Rules.

The deferral of the 2014 ESOO requires the IMO to address two resulting issues in the Market Rules:

- (a) Clause 4.3.1(b) of the Market Rules requires that the Request for Expression of Interest for a Reserve Capacity Cycle must include the preliminary Reserve Capacity Requirement (RCR) determined in accordance with clause 4.6.3 of the Market Rules. Further, clause 4.6.3(b) of the Market Rules specifies that the preliminary RCR is the Reserve Capacity Target as reported in the ESOO for the preceding Reserve Capacity Cycle. Compliance with these clauses for the 2015 Reserve Capacity Cycle currently requires that the 2014 ESOO be published prior to the publication date of the 2015 Request for Expression of Interest, being by 31 January 2015. With the deferral of the 2014 ESOO to 17 June 2015, the IMO will be unable to comply with this clause because a preliminary RCR will not be available by 31 January 2015.
- (b) Clause 4.5.1 and the definition of LT PASA in the Glossary of the Market Rules require the IMO to conduct the LT PASA annually. Deferral of the 2014 ESOO means that an LT PASA will not be completed within the 2014 calendar year, resulting in the IMO not complying with clause 4.5.1 of the Market Rules.

Proposed amendments

The IMO has proposed two new transitional clauses 1.12.1 and 1.12.2 of the Market Rules, which will allow the IMO to:

- (a) undertake the 2014 LT PASA and the RCR determination for the 2014 Reserve Capacity Cycle in 2015; and
- (b) use the 2013 ESOO for the preliminary RCR to be included in the Request for Expressions of Interest for the 2015 Reserve Capacity Cycle,

¹ In place of the 2014 ESOO, the IMO published a SWIS Electricity Demand Outlook on 17 June 2014 containing demand and energy forecasts and relevant market information for the 10-year outlook period. More information is available at: [http://www.imowa.com.au/reserve-capacity/electricity-statement-of-opportunities-\(esoo\)](http://www.imowa.com.au/reserve-capacity/electricity-statement-of-opportunities-(esoo)).

for the purpose of satisfying its obligations with respect to the 2014 Reserve Capacity Cycle under the Market Rules.

Consultation

A pre Rule Change Proposal was presented to the Market Advisory Committee at its 25 June 2015 meeting where members agreed that the proposal should be submitted into the formal rule change process. The IMO formally submitted the Rule Change Proposal into the Standard Rule Change Process and published the Rule Change Notice on 30 June 2014.

The first submission period was held between 1 July and 11 August 2014. Submissions were received from Community Electricity and Perth Energy. Both submissions were supportive of the Rule Change Proposal on the basis that the proposed amendments would avoid unintended consequences of deferring aspects of the 2014 Reserve Capacity Cycle. Perth Energy also noted that the introduction of the changes in transition provisions is an efficient and practical approach.

The second submission period was held between 2 and 30 September 2014. No submissions were received during this period.

Wholesale Market Objective assessment

The IMO considers that the Rule Change Proposal better achieves Wholesale Market Objectives (a), (b) and (d) by:

- using forecasts that better reflect the circumstances at the time and procuring only the amount of capacity needed as determined by the updated Reserve Capacity Target, thereby promoting economic efficiency and reliability of electricity supply;
- reducing any ambiguity with regard to the amount of capacity required in the WEM, thereby facilitating the entry of new capacity investment only if required; and
- minimising potentially unnecessary costs on the market by not requiring the IMO to procure capacity to fulfill the previously determined Reserve Capacity Target even when more relevant, up-to-date and potentially lower forecasts become available.

Practicality and cost of implementation

The IMO will incur minor administrative costs to facilitate the development and progression of this Rule Change Proposal. However, these costs can be accommodated within the IMO's existing budget.

The IMO does not consider that there are any issues with the practicality of implementing the proposed changes. No issues relating to the practicality or cost of implementation have been raised in consultation on the Rule Change Proposal.

The IMO's decision

The IMO's decision is to accept the Rule Change Proposal.

Next steps

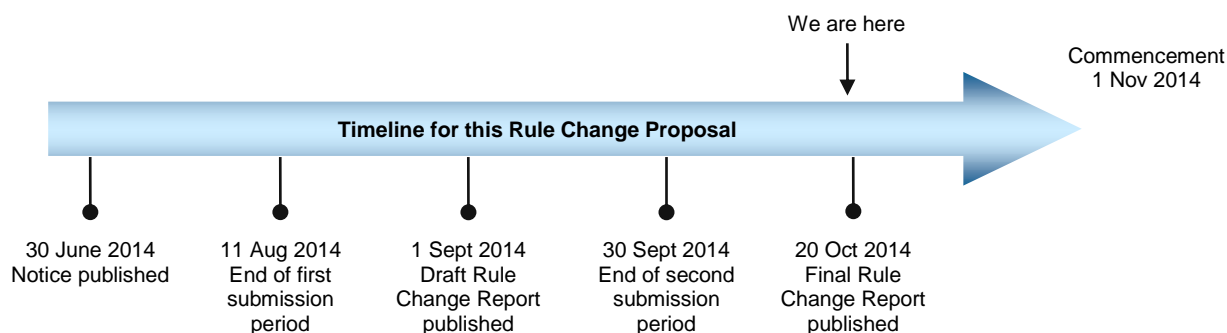
The Amending Rules will provisionally commence at **8:00 AM Saturday 1 November 2014**.

1. Rule change process and timetable

On 30 June 2014, the IMO submitted a Rule Change Proposal proposing two new clauses 1.12.1 and 1.12.2 of the Wholesale Electricity Market (WEM) Rules (Market Rules) to outline specific transition provisions for the 2014 Reserve Capacity Cycle.

This proposal is being processed using the Standard Rule Change Process, described in section 2.7 of the Market Rules.

The key dates in processing this Rule Change Proposal are:



It should be noted that the IMO published the Draft Rule Change Report a week before the due date. The IMO therefore brought forward the subsequent steps in accordance with the new publication date.

The IMO published this Final Rule Change Report on 20 October 2014, a week before the due date.

2. Proposed amendments

2.1. The Rule Change Proposal

Under section 4.5 of the Market Rules, the IMO annually conducts the Long Term PASA (LT PASA) to determine the Reserve Capacity Target for each year of the LT PASA Study Horizon and prepare the Electricity Statement of Opportunities Report (ESOO) for each Reserve Capacity Cycle.

On 29 April 2014, the IMO received a Ministerial Direction to defer the processes related to certification of Reserve Capacity, declaration of bilateral trades, assignment of Capacity Credits and the Reserve Capacity Auction for the 2014 Reserve Capacity Cycle by 12 months in accordance with clause 4.1.32 of the Market Rules. The 2014 Reserve Capacity Cycle is to procure capacity for the 2016/17 Capacity Year, starting 1 October 2016. In accordance with the Ministerial Direction, the IMO published a notice of extension for these aspects of the 2014 Reserve Capacity Cycle on 8 May 2014².

The Ministerial Direction did not direct the IMO to extend the publication date for the 2014 ES00, specified to be 17 June 2014 under clause 4.1.8 of the Market Rules. Clause 4.5.13(b) of the Market Rules states that the ES00 must include the Reserve Capacity

² Information on the amendments to the Reserve Capacity timetable for the 2014 Reserve Capacity Cycle is available at: <http://www.imowa.com.au/reserve-capacity/reserve-capacity-timetable/reserve-capacity-timetable-overview>.

Target for each Capacity Year of the LT PASA Study Horizon. The IMO considered that publishing the 2014 ESOO on the scheduled date and the necessary inclusion of the determined Reserve Capacity Target may result in inefficient outcomes. This is because any updated demand forecasts that become available by the time the capacity procurement processes for the 2014 Reserve Capacity Cycle are conducted in 2015, would not be able to be included in the calculation of the Reserve Capacity Target for the 2014 Reserve Capacity Cycle. If, for example, in 2014, the IMO calculated the Reserve Capacity Target for the 2016/17 Capacity Year to be higher than it would have been based on the information available in 2015, then the IMO would be required under the Market Rules to procure the quantity of capacity for the 2016/17 Capacity Year to fulfil the known higher Reserve Capacity Target resulting potentially in unnecessary costs to the market.

The IMO therefore decided to defer the publication of the 2014 ESOO by 12 months in accordance with clause 4.1.32 of the Market Rules³. This was to enable the IMO to incorporate the most recent information in the demand forecasts in the deferred 2014 ESOO. Additionally, it will allow the IMO to consider the potential impact of any outcomes from the State Government's Electricity Market Review⁴. On 4 June 2014, the IMO published the notice of extension to extend the 2014 ESOO publication to 17 June 2015⁵.

The deferral of the 2014 ESOO by 12 months requires the IMO to address two resulting issues in the Market Rules. These are detailed below:

- (a) Clause 4.3.1(b) of the Market Rules requires that the Request for Expression of Interest for a Reserve Capacity Cycle must include the preliminary Reserve Capacity Requirement (RCR) determined in accordance with clause 4.6.3 of the Market Rules. Further, clause 4.6.3(b) of the Market Rules specifies that the preliminary RCR is the Reserve Capacity Target as reported in the ESOO for the preceding Reserve Capacity Cycle. Compliance with these clauses for the 2015 Reserve Capacity Cycle currently requires that the 2014 ESOO be published prior to the publication date of the 2015 Request for Expression of Interest, being by 31 January 2015. With the deferral of the 2014 ESOO to 17 June 2015, the IMO will be unable to comply with this clause because a preliminary RCR will not be available by 31 January 2015.
- (b) Clause 4.5.1 and the definition of LT PASA in the Glossary of the Market Rules require the IMO to conduct the LT PASA annually. Deferral of the 2014 ESOO means that an LT PASA will not be completed within the 2014 calendar year, resulting in the IMO not complying with clause 4.5.1 of the Market Rules.

To address these issues, the IMO proposed to introduce new transitional clauses 1.12.1 and 1.12.2 of the Market Rules, which will allow the IMO to:

- (a) undertake the 2014 LT PASA and the RCR determination for the 2014 Reserve Capacity Cycle in 2015; and
- (b) use the 2013 ESOO for the preliminary RCR to be included in the Request for Expressions of Interest for the 2015 Reserve Capacity Cycle,

³ In place of the 2014 ESOO, the IMO published a SWIS Electricity Demand Outlook on 17 June 2014 containing demand and energy forecasts and relevant market information for the 10-year outlook period. More information is available at: [http://www.imowa.com.au/reserve-capacity/electricity-statement-of-opportunities-\(esoo\)](http://www.imowa.com.au/reserve-capacity/electricity-statement-of-opportunities-(esoo)).

⁴ More information is available at: http://www.finance.wa.gov.au/cms/TwoColumns_Content.aspx?Pageid=17638&id=17731.

⁵ Available at: <http://www.imowa.com.au/reserve-capacity/reserve-capacity-timetable/reserve-capacity-timetable-overview>.

for the purpose of satisfying its obligations with respect to the 2014 Reserve Capacity Cycle under the Market Rules.

For full details of the Rule Change Proposal please refer to the Market Web Site: http://www.imowa.com.au/RC_2014_04.

2.2. The IMO's initial assessment of the Rule Change Proposal

The IMO decided to proceed with the proposal on the basis that section 4 of the Rule Change Proposal indicated that the proposed amendments would better achieve the Wholesale Market Objectives. The IMO therefore considered that Rule Participants should be given an opportunity to provide submissions on the proposal.

2.3. Protected Provisions, Reviewable Decisions and civil penalties

The proposed amendments do not affect any Protected Provisions, Reviewable Decisions or civil penalties.

3. Consultation

3.1. The Market Advisory Committee

The IMO presented the pre Rule Change Proposal to the Market Advisory Committee (MAC) at its 25 June 2014 meeting. The following queries were raised:

- Mr Simon Middleton queried what the consequences were if there was an incidence of non-compliance. The Chair responded that the Market Rules require the IMO to record each incidence of non-compliance which is then audited annually by an independent Market Auditor. The Market Auditor's report is submitted annually to the Minister and published on the Market Web Site. The Chair noted the reputational risk to the IMO of non-compliance with the Market Rules.
- Mr Andrew Sutherland queried if the proposed transitional rules could be placed in another market document for them to be more easily removed after they have served their purpose. Ms Kate Ryan responded that there was no alternative document that the proposed rules could be placed in and noted that the IMO proposes to place these proposed transitional rules in Chapter 1 of the Market Rules similar to other transitional rules. She also noted that the IMO can remove the transitional rules from the Market Rules at any time after they have served their purpose.

MAC members agreed that the IMO should submit the Rule Change Proposal into the formal process and progress it using the Standard Rule Change Process.

Further details are provided 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 1 July and 11 August 2014. Submissions were received from Community Electricity and Perth Energy.

Both submissions were supportive of the Rule Change Proposal on the basis that the proposed amendments would avoid unintended consequences of deferring the 2014 Reserve Capacity Cycle.

Community Electricity noted that the proposed amendments were consistent with all the Wholesale Market Objectives.

Perth Energy considered that the proposed amendments removed the risk of the IMO becoming non-compliant with the Market Rules as a result of the Ministerial Direction and would ensure that the Reserve Capacity process undertaken in 2015 would produce efficient outcomes on the basis of the most accurate information being used. For these reasons, Perth Energy considered the proposed amendments would better facilitate achievement of Wholesale Market Objectives (b) and (d). Perth Energy also noted that the introduction of the changes in transition provisions was an efficient and practical approach.

A copy of all submissions in full received during the first submission period is available on the Market Web Site: http://www.imowa.com.au/RC_2014_04.

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

No issues with regard to this Rule Change Proposal were raised in the submissions received during the first submission period.

3.4. Submissions received during the second submission period

Following publication of the Draft Rule Change Report on the Market Web Site, the second submission period was held between 2 and 30 September 2014. No submissions were received during this period.

3.5. 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_2014_04.

5. The IMO's proposed decision

The IMO's proposed decision was to accept the Rule Change Proposal. 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 proposed Amending Rules:

- better achieve Wholesale Market Objectives (a), (b) and (d);
- are consistent with the remaining Wholesale Market Objectives; and
- have the support of the MAC and the 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 of the Market Rules 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 of the Rule Change Proposal is outlined in the following sub-sections.

6.1. Additional amendments to the proposed Amending Rules

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

6.2. Wholesale Market Objective assessment

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), (b) 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

The IMO notes that the proposed Amending Rules will allow the IMO to include any updated information and forecasts that become available in determining the Reserve Capacity Target for the 2016/17 Capacity Year in the LT PASA and ESOO as deferred. The IMO considers that using forecasts that better reflect the circumstances at that time will provide more relevant and up-to-date information to Market Participants regarding the need for new capacity at the time of the certification process for the 2014 Reserve Capacity Cycle. This will promote economic efficiency and reliability of electricity supply. The IMO therefore considers that the proposed amendments will better achieve Wholesale Market Objective (a).

(b) to encourage competition among generators and retailers in the South West interconnected system, including by facilitating efficient entry of new competitors

The IMO notes that the proposed Amending Rules will ensure that outdated forecasts are not used when determining the Reserve Capacity Target for the 2016/17 Capacity Year. This will reduce any ambiguity with regard to the amount of capacity required in the WEM, thereby facilitating the entry of new capacity investment only if required. The IMO therefore considers

that the proposed amendments will better achieve Wholesale Market Objective (b).

Further, the IMO notes that the proposed Amending Rules will allow for the use of the 2013 ESOO for the preliminary RCR to be included in the Request for Expressions of Interest for the 2015 Reserve Capacity Cycle (so as to provide an indicative Reserve Capacity Target for the 2017/18 Capacity Year). While the 2013 ESOO may be potentially outdated for the Reserve Capacity Target for the 2017/18 Capacity Year, the IMO notes that the Expression of Interest is a non-binding obligation and the purpose of the preliminary RCR is to provide an indicative amount. The IMO considers that this purpose will be adequately served by using the 2013 ESOO and therefore, the proposed amendments are not contrary to the Wholesale Market Objectives (a) or (b).

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

The IMO considers that if the proposed amendments were not implemented, there may be ambiguity with regard to the Reserve Capacity Target and the quantity of capacity to be procured for the 2014 Reserve Capacity Cycle. This may impose unnecessary costs on the market because the IMO would be required under the Market Rules to procure capacity to fulfill the previously determined Reserve Capacity Target even when more relevant, up-to-date and potentially lower forecasts become available. The IMO therefore considers that the proposed amendments will better achieve Wholesale Market Objective (d).

6.3. Practicality and cost of implementation

6.3.1. Cost

The IMO has incurred minor administrative costs to facilitate the development and progression of this Rule Change Proposal. These costs have been accommodated within the IMO's existing budget.

6.3.2. Practicality

The IMO does not consider that there are any issues with the practicality of implementing the proposed changes as they do not require any specific action by either the IMO or other Rule Participants until the preparation of the 2015 ESOO. No issues relating to the practicality of implementation of the proposed amendments have been raised during consultation on the Rule Change Proposal.

6.3.3. Amendments to associated Market Procedures

The IMO notes that there are no Market Procedures that require updating as a result of this Rule Change Proposal.

7. The IMO's decision

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

7.1. Reasons for the decision

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

- better achieve Wholesale Market Objectives (a), (b) and (d);

- are consistent with the remaining Wholesale Market Objectives; and
- have the support of the MAC and the submissions received.

7.2. Proposed commencement

The Amending Rules are proposed to commence at **8:00 AM** on **1 November 2014**.

8. Proposed Amending Rules

The proposed Amending Rules as presented in the Rule Change Proposal and amended following the first submission period are as follows (~~deleted text~~, added text):

1.12. Specific Transition Provisions for the 2014 Reserve Capacity Cycle

- 1.12.1. For the purposes of clause 4.5.1, the Long Term PASA for the 2014 Reserve Capacity Cycle is deemed to be the study conducted in accordance with clause 4.5 and published under clause 4.5.11 in the Statement of Opportunities Report for the 2015 Reserve Capacity Cycle by the date specified in clause 4.1.8.
- 1.12.2. For the purposes of clauses 4.3.1(b) and 4.6.3(b), the preliminary Reserve Capacity Requirement for the 2015 Reserve Capacity Cycle is deemed to be the Reserve Capacity Target for the relevant Capacity Year as reported in the most recently published Statement of Opportunities Report.