



INDEPENDENT
MARKET
OPERATOR

Rule Change Notice

Specific Transition Provisions for the 2014 Reserve Capacity Cycle (RC_2014_04)

This notice is given under clause 2.5.7 of the Wholesale Electricity Market Rules (Market Rules).

Submitter: Kate Ryan, IMO

Date Submitted: 30 June 2014

The Proposal

On 29 April 2014, the IMO received a Ministerial Direction to defer certain aspects of the 2014 Reserve Capacity Cycle¹. In light of the Ministerial Direction, the IMO considered that the 2014 Electricity Statement of Opportunities Report (ESOO) should also be deferred so as to allow the IMO to include any updated demand forecasts that become available in the formal determination of the Reserve Capacity Target for the deferred 2014 Reserve Capacity Cycle. Accordingly, the IMO extended the publication of the 2014 ESOO to 17 June 2015.

The deferral of the 2014 ESOO requires the IMO to address two resulting compliance 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) which is the Reserve Capacity Target as reported in the ESOO for the preceding Reserve Capacity Cycle. With the deferral of the 2014 ESOO to 17 June 2015, the IMO will be unable to comply with this clause for the 2015 Reserve Capacity Cycle because a preliminary RCR will not be available by the time the Request for Expression of Interest is published on 31 January 2015.
- (b) Clause 4.5.1 and the definition of Long Term PASA (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 the annual LT PASA will not be completed within the 2014 calendar year.

The IMO has proposed transitional rules for the purpose of satisfying its obligations with respect to the 2014 Reserve Capacity Cycle under the Market Rules. The proposed transitional rules will allow the IMO to undertake the 2014 Long Term PASA and the RCR determination in 2015 and use the 2013 ESOO for the preliminary RCR to be included in the Request for Expressions of Interest for the 2015 Reserve Capacity Cycle.

¹Information 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>.

Appendix 1 contains the Rule Change Proposal and gives complete information about:

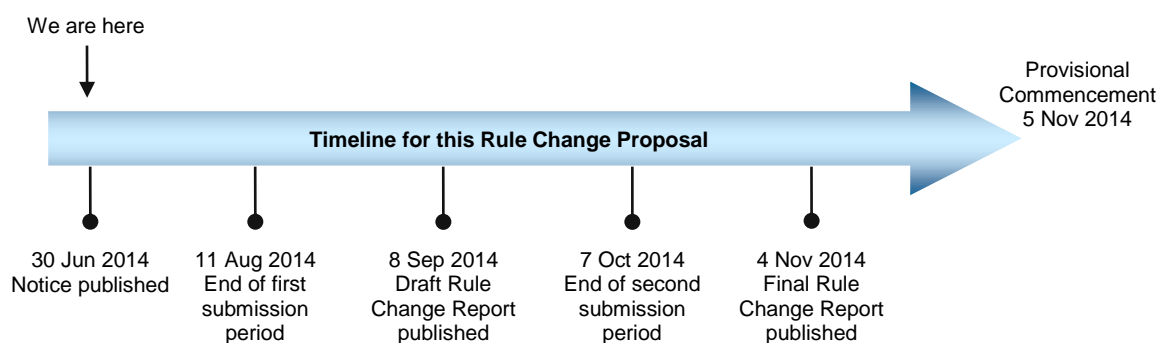
- the proposed amendments to the Market Rules;
- relevant references to clauses of the Market Rules and any proposed specific amendments to those clauses; and
- the submitter's description of how the proposed amendments would allow the Market Rules to better address the Wholesale Market Objectives.

Decision to Progress the Rule Change

The IMO has decided to progress the Rule Change Proposal on the basis that Rule Participants should be given an opportunity to provide submissions as part of the Standard Rule Change Process.

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 30 Business Days from the Rule Change Notice publication date. Submissions must be delivered to the IMO by **5.00 PM on Monday, 11 August 2014**.

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 and Capacity
PO Box 7096
Cloisters Square, PERTH, WA 6850
Fax: (08) 9254 4399



INDEPENDENT
MARKET
OPERATOR

Wholesale Electricity Market Rule Change Proposal

Rule Change Proposal ID: RC_2014_04
Date received: 30 June 2014

Change requested by:

Name:	Kate Ryan
Phone:	08 9254 4357
Fax:	08 9254 4399
Email:	kate.ryan@imowa.com.au
Organisation:	IMO
Address:	Level 17, 197 St Georges Terrace, Perth WA 6000
Date submitted:	30 June 2014
Urgency:	Medium
Change Proposal title:	Specific Transition Provisions for the 2014 Reserve Capacity Cycle
Market Rules affected:	New clauses 1.12.1, 1.12.2

Introduction

Market Rule 2.5.1 of the Wholesale Electricity Market (WEM) Rules (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 IMO.

This Rule Change Proposal form can be posted, faxed or emailed to:

Independent Market Operator

Attn: Group Manager, Development and Capacity
PO Box 7096
Cloisters Square, Perth, WA 6850
Fax: (08) 9254 4339
Email: market.development@imowa.com.au

The IMO will assess the proposal and, within five 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 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

Under clause 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 2014¹.

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 Target for each Capacity Year of the LT PASA Study Horizon. The IMO considered

¹ 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>.

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 Cycle².

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 is 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.

Issues

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 the annual 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

To address these issues, the IMO proposes to introduce new transitional rules which will allow the IMO to:

- (a) undertake the 2014 LT PASA and the RCR determination 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,

² 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.

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.

Consultation

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.

2. Explain the reason for the degree of urgency:

The IMO proposes to commence the proposed Amending Rules as soon as practicable to ensure that the IMO can continue to satisfy its obligations under the Market Rules and allow for the preparation of the 2014 and 2015 ESoots to be published by 17 June 2015.

3. Provide any proposed specific changes to particular Rules: (for clarity, please use the current wording of the Rules and place a ~~strike through~~ where words are deleted and underline words added)

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.

4. Describe how the proposed Market Rule change would allow the Market Rules to better address the Wholesale Market Objectives:

Clause 2.4.2 of the Market Rules states 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.

The IMO considers that this Rule Change Proposal will better achieve Wholesale Market Objectives (a), (b) and (d) and is consistent with the remaining Wholesale Market Objectives.

(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, the Market Rules would be ambiguous 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 fulfil 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).

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

Benefits

The benefits of the proposed Amending Rules to the market as a whole include the:

- (a) provision of relevant and up-to-date information for Market Participants to make decisions about investing in new capacity at the time of the certification process for the 2014 Reserve Capacity Cycle;
- (b) minimisation of potential unnecessary costs imposed on the market as a result of the IMO having to procure capacity to fulfill a Reserve Capacity Target set in 2014 for the 2014 Reserve Capacity Cycle even when more relevant, up-to-date and potentially lower forecasts become available in 2015 prior to certification of Reserve Capacity for the 2014 Reserve Capacity Cycle; and
- (c) provision of clarity in relation to the IMO's obligations and to ensure its actions are consistent with and result in the most efficient procurement of capacity in light of the deferral of the 2014 Reserve Capacity Cycle following the Ministerial Direction.

Costs

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 operational budget.