



INDEPENDENT  
MARKET  
OPERATOR

## Rule Change Notice

### Reduced Frequency of the Review of the Energy Price Limits and the Maximum Reserve Capacity Price (RC\_2014\_05)

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

**Submitter:** Kate Ryan, Independent Market Operator

**Date submitted:** 2 December 2014

#### The Rule Change Proposal

The IMO proposes to amend the Market Rules to move to a five-yearly review of the Energy Price Limits (EPL) and Maximum Reserve Capacity Price (MRCP) and to index the EPL monthly and quarterly as applicable and the MRCP annually between the reviews.

The Market Rules currently require the IMO to undertake an annual review of the EPL and the MRCP. The IMO notes that most of the input parameters that are used to calculate these prices do not change significantly on an annual basis. The IMO therefore considers that the costs and the price uncertainties for Market Participants associated with an annual review of the EPL and MRCP are not commensurate with the benefits.

Reviewing the EPL and the MRCP five-yearly instead of annually is expected to reduce the IMO's consultancy costs by around \$500,000 over each five year period and would also enable the IMO's resources to be directed to more beneficial work.

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

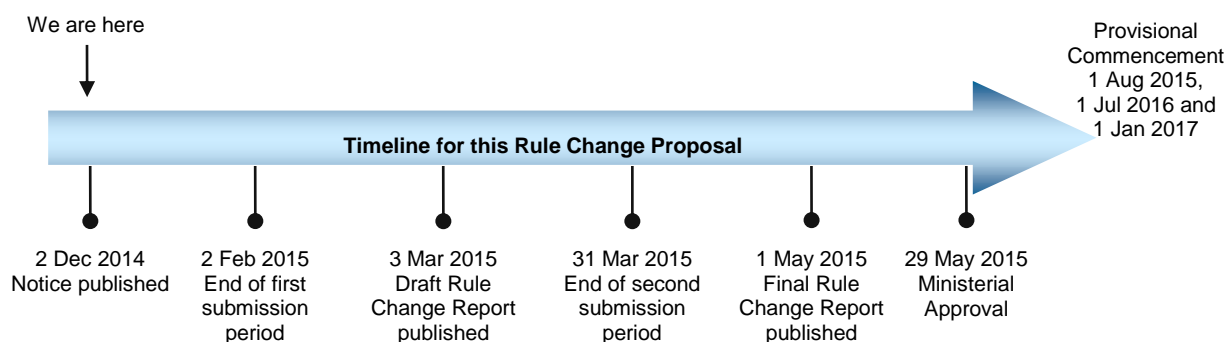
- the proposed amendments to the Market Rules;
- relevant references to clauses of the Market Rules and any proposed specific amendments to those clauses; and
- the submitter's description of how the proposed amendments would allow the Market Rules to better address the Wholesale Market Objectives.

## Decision to progress the Rule Change Proposal

The IMO has decided to progress this Rule Change Proposal on the basis that the IMO considers that the proposed changes will decrease the costs of administering the WEM and increase regulatory certainty for Market Participants, without compromising the effectiveness of the EPL and MRCP. Therefore, the IMO considers that stakeholders should be given an opportunity to provide submissions as part of the rule change process.

### Timeline

The projected timelines for processing this proposal are:



Please note that the first submission period has been extended beyond the usual 30 Business Days by 10 Business Days to account for the Christmas period. All other dates have been adjusted accordingly.

### Call for submissions

The IMO invites interested stakeholders to make submissions on this Rule Change Proposal. The submission period is 40 Business Days from the Rule Change Notice publication date. Submissions must be delivered to the IMO by **5:00 PM on Monday, 2 February 2015**.

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](mailto: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



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## Wholesale Electricity Market Rule Change Proposal

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Rule Change Proposal ID: RC\_2014\_05  
Date received: 2 December 2014

Change requested by:

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<b>Date submitted:</b>	2 December 2014
<b>Urgency:</b>	Medium
<b>Rule Change Proposal title:</b>	Reduced Frequency of the Review of the Energy Price Limits and the Maximum Reserve Capacity Price
<b>Clause(s) affected:</b>	Clauses 1.13.1 (new), 1.13.2 (new), 1.13.3 (new), 1.13.4 (new), 1.13.5 (new), 1.13.6 (new), 1.13.7 (new), 1.14.1 (new), 1.14.2, (new), 1.14.3 (new), 1.14.4 (new), 1.14.5 (new), 1.14.6, (new), 1.14.7 (new), 1.14.8 (new), 1.14.9 (new), 2.8.13, 2.26.3, 4.1.19, 4.16.1, 4.16.2, 4.16.3, 4.16.4, 4.16.5, 4.16.6, 4.16.7, 4.16.8, 4.16.9, 4.16.10 (new), 4.16.11 (new), 4.16.12 (new), 4.16.13 (new), 4.16.14 (new), 4.16.15 (new), 6.6.2A, 6.6.5, 6.6.8, 6.6.10, 6.9.5, 6.9.6, 6.20.1, 6.20.2, 6.20.3, 6.20.4, 6.20.5, 6.20.6, 6.20.7, 6.20.8, 6.20.9, 6.20.9A, 6.20.10, 6.20.11, 7A.2.3, 7A.2.9, 7A.3.5, 10.5.1, the Glossary and Appendix 6.

### Introduction

Clause 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 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](mailto: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.

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## Details of the Proposed Rule Change

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

The Market Rules require the IMO to undertake an annual review of the Energy Price Limits (EPL) and the Maximum Reserve Capacity Price (MRCP). These prices provide price ceilings for the Wholesale Electricity Market (WEM) energy market and the Reserve Capacity Mechanism respectively, protect the WEM against the abuse of market power and provide a level of price certainty.

Each year the IMO incurs consultancy costs of around \$58,000 to review the EPL and \$66,000 to review the MRCP and these processes also require significant effort from IMO

staff. In addition, the Economic Regulation Authority (ERA) and Market Participants also incur costs associated with these annual reviews. In addition, the IMO is currently required to undertake a five-yearly review of the Market Procedure: MRCP.

The IMO notes that most of the input parameters that are used to calculate these prices do not change significantly on an annual basis<sup>1</sup>. The IMO therefore considers that the review costs and the price uncertainties for the Market Participants associated with an annual review of the EPL and MRCP are not commensurate with the benefits.

The IMO also considers that a change to a less frequent review of the EPL and MRCP would not reduce their effectiveness in mitigating the abuse of market power and would increase the regulatory certainty for Market Participants. In recent submissions to the Government's Electricity Market Review Discussion Paper, Alinta Energy and Merredin Energy criticised the past volatility of the MRCP<sup>2</sup>.

The IMO therefore proposes to amend the Market Rules to move to a five-yearly review of the EPL and MRCP and to index the EPL and the MRCP between the reviews. The IMO proposes to index the Maximum STEM Price (proposed to be renamed to Maximum Energy Price) and the non-fuel component of the Alternative Maximum STEM Price (proposed to be renamed to Alternative Maximum Energy Price) quarterly while keeping the monthly indexation of the fuel component of the Alternative Maximum Energy Price and to index the MRCP annually. This is expected to reduce the IMO's consultancy costs by around \$500,000 over each five year period and would also result in a reduction of the IMO's workload which would allow it to prioritise other more beneficial work.

The IMO notes that the review of the prices should directly follow on from a review of the methodology in order to achieve the maximum benefits of the change. The IMO considers that the coupling of the review of the methodology and the price in the same report will reduce the effort and costs associated with the process for the IMO, the ERA and Market Participants. The IMO also notes that the price outcome is useful to inform the assessment of the adequacy of the methodology. The IMO therefore proposes to locate its obligations to undertake the methodology review, with the determination of the price.

The IMO recognises that a five-yearly review of the EPL and MRCP together with a quarterly indexation of the EPL and an annual indexation of the MRCP might not be suitable for the current values of the EPL and MRCP determined under the current Market Rules. Therefore, the IMO proposes to undertake an initial review of the EPL and MRCP and the respective methodologies the IMO uses to determine the values according to the proposed new review process, prior to calculating the first EPL and MRCP under the proposed amendments.

The IMO has also taken the opportunity to change the names of the different EPL by replacing the term 'STEM' with 'Energy' to reflect that the EPL apply to both the STEM and the Balancing Market.

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<sup>1</sup> Historically, the changes affecting the EPL and MRCP have been associated with changes to the methodology used to calculate the input parameters rather than the input parameters themselves.

<sup>2</sup> Submissions to the Government's Electricity Market Review Discussion Paper can be found at: [http://www.finance.wa.gov.au/cms/TwoColumns\\_Content.aspx?Pageid=17638&id=17731](http://www.finance.wa.gov.au/cms/TwoColumns_Content.aspx?Pageid=17638&id=17731).

The IMO has also taken the opportunity to improve the structure of these sections of the Market Rules and more clearly articulate the process that the IMO follows with respect to the calculation and review of the EPL and MRCP.

### ***Proposed amendments***

#### **Issue 1: Improved clarity of the description of the prices**

The IMO proposes to clarify the definitions, calculations and purposes of the EPL and MRCP.

The current definitions for the Maximum STEM Price and Alternative Maximum STEM Price (to be renamed to the Maximum Energy Price and the Alternative Maximum Energy Price) refer to prices calculated in section 6.20 of the Market Rules. The clause that describes the Maximum STEM Price then refers to the price determined in the annual review and approved by the ERA. The definition for the Alternative STEM Energy Price refers to clause 6.20.3 of the Market Rules which contains superseded calculations and a reference to the monthly indexation of the price determined in the annual review to the oil price. The definition of the Minimum STEM Price only notes that it is set to -\$1,000 per megawatt hour.

The IMO notes that the term 'STEM' in the name of the different EPL (Alternative Maximum STEM Price, Maximum STEM Price and Minimum STEM Price) is misleading as the EPL apply to both the STEM and the Balancing Market. Therefore, the IMO proposes to replace the term 'STEM' with 'Energy' for all three EPL in clauses 6.6.2A, 6.6.5, 6.6.8, 6.6.10, 6.9.5, 6.9.6, 7A.2.3, 7A.2.9, 7A.3.5, 10.5.1, the Glossary and Appendix 6 of the Market Rules and use the amended terms in the proposed Amending Rules in this Rule Change Proposal. The following issues discussed in this Rule Change Proposal will reflect these proposed new names for ease of reference.

The MRCP is currently defined as the price in clause 4.16.2 of the Market Rules as revised in accordance with section 4.16 of the Market Rules. Clause 4.16.2 of the Market Rules states a value for the MRCP for the first Reserve Capacity Cycle and imposes obligations on the IMO to undertake a review in accordance with the relevant Market Procedure. However, it does not provide an explanation of the purpose of the MRCP is or how it is calculated.

The IMO therefore proposes to amend clauses 4.16.1 and 6.20.1 of the Market Rules and the definitions for the Maximum Reserve Capacity Price and the new terms Maximum Energy Price, Alternative Maximum Energy Price and Minimum Energy Price in the Glossary of the Market Rules to more explicitly articulate the purpose of these prices. This will increase the clarity of the Market Rules and mitigate the any risk that the purpose of the EPL and MRCP could be interpreted or applied differently by different parties or in different situations.

The IMO also proposes to amend clauses 4.16.2 and 6.20.2 of the Market Rules to clarify that the IMO must publish the applicable price, which is either the price approved by the ERA as a result of a five-yearly or in-period review, or otherwise the result of an indexation (see issue 5).

#### **Issue 2: Removal of the annual review and introduction of a five-yearly review**

The IMO proposes to amend the Market Rules to move to a five-yearly review of the EPL and MRCP to reduce the costs associated with the current annual review. This is on the

basis that the reviews cost approximately \$125,000 per annum (excluding IMO staff costs, ERA costs and Market Participant costs) and the various input parameters of these prices do not vary significantly on an annual basis. The IMO therefore considers that benefits associated with the annual review of the EPL and MRCP are not commensurate with the costs.

To implement a five-yearly review cycle, the IMO proposes to delete the requirements in clauses 4.16.3 and 6.20.6 of the Market Rules under which the IMO must undertake an annual review of the EPL and the MRCP respectively, and amend clauses 6.20.5 and 4.16.4 of the Market Rules, to require the IMO to review these prices at least once every five years. The IMO also proposes to align the review of the prices with the review of the methodology, such that, each five-yearly process results in proposed prices to be submitted to the ERA for approval.

The IMO proposes to include obligations in the Market Rules that outline the five-yearly review process as follows:

- the IMO completes a review of the methodology;
- the IMO prepares a report containing:
  - the methodology used to determine the proposed revised price(s);
  - details of how it arrived at the proposed methodology;
  - details of how it has arrived at the values of the input parameters; and
  - a proposed revised value for each of the prices;
- the IMO publishes the report on the Market Web Site and in a Western Australian newspaper and requests submissions during a six week consultation period;
- following the submission period, the IMO updates the report as applicable and provides it, together with the submissions received to the ERA for review and approval of the price(s);
- once the ERA has approved the price(s) the IMO publishes the updated report with the approved price(s) on the Market Web Site and the price(s) become effective at the time and date specified in the report;
- where the ERA does not approve the proposed revised price(s) by a time that allows the IMO to meet its obligation to publish the price(s), the IMO indexes the previous price(s) (see issue 5); and
- where the ERA approves a proposed revised value after the IMO has published the indexed price:
  - for the EPL, this approved proposed value becomes effective at the start of the next quarter after its approval; and
  - for the MRCP, the value cannot be substituted after its publication, as it applies for the Capacity Year. However, in such a case, the IMO may resubmit the proposed revised value for the next Capacity Year, provided the IMO still considers it appropriate.

This process is outlined in the proposed amended clauses 6.20.5 and 6.20.7 to 6.20.11 of the Market Rules for the EPL and clauses 4.16.4 to 4.16.9 of the Market Rules for the MRCP.

The IMO considers that these proposed amended clauses will also increase the transparency and clarity with respect to the review processes.

The IMO also proposes to introduce transitional provisions in new clauses 1.14.1 to 1.14.9 of the Market Rules for the EPL and clauses 1.13.1 to 1.13.7 of the Market Rules for the MRCP. These transitional provisions are proposed to implement an initial review of the methodologies and values of the input parameters for the EPL and MRCP under the proposed new process before moving to a five-yearly review of the EPL and MRCP or undertaking any indexation. This will ensure that the reviews result in a value that is appropriate over a five year period and can be indexed.

The proposed commencement dates for these clauses have been selected to require the first five-yearly review and calculation of the:

- EPL to apply from 1 July 2016; and
- MRCP to apply to the 2017 Reserve Capacity Cycle (consistent with the timing of the next five-yearly review under current clause 4.16.9 of the Market Rules).

### **Issue 3: Introduction of an in-period review to account for significant changes**

As the IMO is proposing to extend the period between reviews of the EPL and MRCP, the IMO also proposes to introduce the ability for it to revise the EPL and MRCP outside of the five-yearly review cycle in certain circumstances. The IMO considers that this will mitigate the risk that the prices become un-representative of the input parameters for any reason.

The IMO proposes amendments to clauses 6.20.6 and 4.16.10 of the Market Rules to enable the IMO to undertake an in-period review of the EPL and MRCP. The IMO also proposes amendments to clauses 4.16.11 to 4.16.15 of the Market Rules in order to outline the process of the proposed in-period review for the MRCP. For the EPL the process for the in-period review is outlined in the same clauses as the five-yearly review. In the case of the EPL and MRCP the in-period review will follow the same process as the five-yearly review except that the in-period review is proposed to only include a review of the input parameters and not a review of the methodology.

### **Issue 4: Removal of Market Procedure for Maximum Reserve Capacity Price**

Currently under clause 4.16.3 of the Market Rules, the IMO must develop a Market Procedure documenting the methodology it uses and the process it follows to determine the MRCP. The IMO notes that following each review of the methodology, the Market Procedure must be updated where there have been changes.

While the IMO considers that documenting the methodology that must be followed with respect to a review of the MRCP is useful, its documentation in a Market Procedure is inefficient. Following each change to the methodology, the IMO must develop a Procedure Change Proposal to update the Market Procedure to document the changes. This updated Market Procedure may only be used once to calculate the price before it is updated again.



The IMO considers that the process could be streamlined by documenting the methodology in the relevant report of the respective review, which is consulted on and provided to the ERA for consideration in its approval of the price. The IMO therefore proposes to remove the obligation for the IMO to have a Market Procedure to document the methodology that must be followed with respect to a review of the MRCP in existing clause 4.16.3 of the Market Rules and instead require the methodology to be included in the relevant report. The IMO notes that the proposed consultation process for the review itself (see issue 2) is as robust as, and provides for more consultation than the Procedure Change Process. The IMO therefore considers the removal of the Market Procedure to be appropriate.

The IMO also proposes to adjust the obligation on the ERA in clause 2.26.3 of the Market Rules to review the methodology used by the IMO to determine the MRCP accordingly, by referring to the most recent report published under clause 4.16.8 of the Market Rules instead of referring to the Market Procedure.

### **Issue 5: Introduction of price indexation**

The IMO proposes to index the Maximum Energy Price, Alternative Maximum Energy Price and MRCP in each year where the price isn't revised in accordance with a five-yearly review or in-period review. This will ensure that these prices change in accordance with regular price movements and account for inflation and changes in exchange rates associated with costs in the sector. The IMO proposes to index the Maximum Energy Price and the Alternative Maximum Energy Price quarterly and the MRCP annually to the Producer Price Index (preliminary demand, total)<sup>3</sup> on the basis that both the Maximum Energy Price and the Alternative Maximum Energy Price historically have a good correlation to the Producer Price Index<sup>4</sup> and that this index is appropriate as it reflects changes in costs faced by suppliers.

To effect the indexation, the IMO proposes to amend clauses 6.20.3 and 4.16.3 of the Market Rules to introduce an equation to provide a quarterly indexation of the EPL (other than the fuel component of the Alternative Maximum Energy Price) and an annual indexation of the MRCP to the Producer Price Index in years where a five-yearly review or in-period review is not undertaken. The IMO considers that the indexation should reflect changes in regular price movements as quick as possible. Therefore, the IMO proposes to introduce a quarterly indexation for the EPL, as the Producer Price Index is updated and published quarterly and an annual indexation of the MRCP, as the MRCP cannot be changed within a Capacity Year.

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<sup>3</sup> The Producer Price Index (Cat No. 6427.0) is published quarterly by the Australian Bureau of Statistics. The IMO proposes to use the annual percentage change of the Preliminary, Total Index which is derived based on the prices of both the domestic and imported products consumed as inputs into intermediate demand items.

<sup>4</sup> It should be noted that a meaningful analysis with respect to the correlation between the MRCP and the Producer Price Index cannot be made due to the significant changes in the MRCP resulting from changes to the methodology used to calculate the various input parameters used to calculate the MRCP.

The IMO notes that the fuel cost component of the Alternative Maximum Energy Price is currently indexed to the oil price<sup>5</sup> on a monthly basis, which the IMO proposes to retain while ensuring that any indexation is not double-counted (see issue 6). Consistent with the Maximum Energy Price, the non-fuel component of the Alternative Maximum Energy Price is proposed to be indexed quarterly to the Producer Price Index.

## **Issue 6: Clarifying the calculation of the Energy Price Limits**

Currently clause 6.20.3 of the Market Rules describes the monthly indexation of the Alternative Maximum Energy Price in words, and references the calculated price to the price at market start. The IMO proposes to clarify the calculation by articulating it as a formula and removing the redundant references to the market start.

The IMO also proposes to move the monthly indexation of the fuel component of the Alternative Maximum Energy Price from clause 6.20.3 of the Market Rules and include this in clause 6.20.4 of the Market Rules to improve the logical sequencing of the obligations with respect to the process. The IMO also proposes to structure the proposed amended clauses 6.20.3 and 6.20.4 of the Market Rules to clearly articulate how each EPL is indexed and to distinguish between the quarterly (clause 6.20.3) and monthly (clause 6.20.4) indexation of the Alternative Maximum Energy Price to ensure that the indexation is not double-counted.

Currently, clause 6.20.3 of the Market Rules requires the IMO to use the Singapore Gas Oil (0.5% sulphur) price or another suitable published price as determined by the IMO to index the fuel cost component of the Alternative Maximum Energy Price. The IMO notes that the Singapore Gas Oil price is no longer traded in sufficiently large volumes to provide a meaningful indexation. As such, the IMO currently uses the Perth Net Ex Terminal Price for diesel which the IMO calculates by taking the Perth Terminal Gate Price<sup>6</sup> and removing GST and excise<sup>7</sup>. The IMO proposes to change the reference to the oil price used to index the fuel cost component of the Alternative Maximum Energy Price to the Perth Net Ex Terminal Price in the proposed amended clause 6.20.3 and 6.20.4 of the Market Rules.

Clause 6.20.7 of the Market Rules currently requires the IMO to calculate the Maximum Energy Price or Alternative Maximum Energy Price in accordance with the explicit formula:  $(1 + \text{Risk Margin}) \times (\text{Variable O\&M} + (\text{Heat Rate} \times \text{Fuel Cost})) / \text{Loss Factor}$ . The IMO considers that, similar to the requirement for determining the MRCP (see issue 1), the report containing the proposed revised values should also outline the methodology and input parameters used in the calculation of the relevant EPL, rather than the Market Rules. This will ensure that the Market Rules are principles-based to the extent possible. On this basis, the IMO proposes to remove the calculation in clause 6.20.7 of the Market Rules and include

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<sup>5</sup> Under clause 6.20.3 of the Market Rules, the Alternative Maximum Energy Price is currently indexed to the Singapore Gas Oil (0.5% sulphur) price as published by the international Energy Agency in its monthly Oil Market Report or another suitable price as determined by the IMO. As the Singapore Gas Oil (0.5% sulphur) price is not published anymore, the IMO calculates instead a monthly average of the Perth Diesel Terminal Gate Price, as published every weekday by the Australian Institute of Petroleum excluding the GST and excise, as another suitable price.

<sup>6</sup> The Perth Terminal Gate Price for Diesel which is published for every weekday by the Australian Institute of Petroleum available at: <http://www.aip.com.au/pricing/tgp/>.

<sup>7</sup> For further information see the 2014 Energy Price Limits Review, available at: <http://www.imowa.com.au/rules/other-wem-consultation-documents/2014-energy-price-limits-review>.

a list of factors that the IMO must consider when calculating the EPL in the proposed amended clause 6.20.5 of the Market Rules.

Further, the IMO notes that currently clause 6.20.7 of the Market Rules explicitly includes the risk margin as an input parameter in the calculation of the EPL and defines it as a measure for uncertainty in the assessment of the mean short run average costs. However, this definition does not specify the level of the risk margin and is unclear what uncertainty should be measured. The IMO proposes to explicitly include the risk margin in the proposed amended definition of the Maximum Energy Price and the Alternative Maximum Energy Price under clause 6.20.1 of the Market Rules by stating for both prices that they are calculated such that the short run average cost is recovered 80 per cent of the time which reflects the current determination of the risk margin in the EPL calculation. Accordingly, the IMO proposes to not include the risk margin in the list of input parameters to be considered for the calculation of the Maximum Energy Price and the Alternative Maximum Energy Price in the proposed amended clause 6.20.5 of the Market Rules (which is proposed to replace the calculation in existing clause 6.20.7 of the Market Rules).

The IMO also proposes to adjust the obligation on the ERA in clause 2.26.3 of the Market Rules to review the methodology used by the IMO to determine the EPL, by referring specifically to the most recent report published under clause 6.20.10 of the Market Rules following a review under 6.20.5 of the Market Rules, instead of generally referring to section 6.20 of the Market Rules.

#### **Issue 7: Remove the explicit ability for the IMO to undertake further consultation**

The Market Rules do not preclude the IMO undertaking further consultation as required, without explicit discretion such as that provided under clause 6.20.9A of the Market Rules. The IMO therefore proposes to delete clause 6.20.9A of the Market Rules as it is redundant.

#### **Issue 8: Other minor amendments**

The IMO has taken the opportunity to correct typographical errors in clauses 2.26.3, 4.16.6, 4.16.7 and 6.6.10 of the Market Rules. The IMO also proposes to amend clause 4.1.19 of the Market Rules to correct a cross-reference for the proposed amendments in this Rule Change Proposal and remove inconsistencies with the language in clause 2.26.1 of the Market Rules, which outlines the ERA's role in the approval of the EPL and MRCP.

The IMO also proposes to amend clause 2.26.3 to clarify the ERA's current obligations with respect to its review of the process the IMO uses to determine the EPL and the MRCP.

#### ***Protected Provisions, Reviewable Decisions and civil penalty provisions***

The IMO notes that clause 4.1.19 and the clauses in section 4.16 of the Market Rules are Protected Provisions under clause 2.8.13 of the Market Rules. Therefore, under clause 2.8.3 of the Market Rules, the proposed Amending Rules in this Rule Change Proposal must be approved by the Minister.

The IMO proposes to make the clauses in section 1.13 of the Market Rules Protected Provisions on the basis that the clauses in section 4.16, which they will replace in the short-term, are also Protected Provisions. To effect this the IMO proposes to amend clause 2.8.13 of the Market Rules to include section 1.13 in the list of Protected Provisions. It should be noted that clause 2.8.13 of the Market Rules is itself also a Protected Provision.

The IMO notes that clause 7A.2.9 of the Market Rules is a Category C civil penalty provision.

The proposed amendments in this Rule Change Proposal do not affect any clauses which are Reviewable Decisions. However, during the discussion of the pre Rule Change Proposal, members of the Market Advisory Committee recommended that the IMO's decision on whether to review the EPL and the MRCP outside of the proposed five-yearly review should be subject to a Reviewable Decision.

The IMO notes that under the *Electricity Industry (Wholesale Electricity Market) Regulations* (WEM Regulations) a Market Participant requesting the IMO's decision to be reviewed would need to provide evidence that its interests were adversely affected by this decision. To provide this evidence, the participant would need to know the outcome of the hypothetical review, which would be impossible. Therefore, making these decisions subject to a Reviewable Decision is unlikely to result in a positive outcome. Further, the IMO would consider any evidence from Market Participants when making its decision. On this basis, the IMO does not propose to recommend to the Public Utilities Office (PUO) that the decision on whether to review the MRCP and the EPL outside of the proposed five-yearly review subject to a Reviewable Decision.

The IMO will engage with the PUO to discuss this issue and progress the any necessary amendments. The IMO and PUO will also consider any feedback from Market Participants on whether the decision should be subject to a Reviewable Decision.

The IMO notes that if the relevant clauses are made Reviewable Decisions, it would require amendments to clause 2.17.1 of the Market Rules as well as Schedule 2 of the WEM Regulations. Clause 2.17.1 is a Protected Provision.

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## **2. Explain the reason for the degree of urgency:**

The IMO notes that the proposed amendments include an alignment of the first five-yearly review of the MRCP with the intended timing of the next five-yearly review of the methodology in order to maximise the benefit of these proposed amendments. The IMO therefore proposes to process this Rule Change Proposal with medium urgency to enable the proposed transitional clauses 1.13.1 to 1.13.7 of the Market Rules to commence in a timely manner so they can apply for the IMO's next review of the MRCP methodology which is due to be completed by the end of 2016.

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- 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)

### **Proposed commencement 1 August 2015**

The proposed Amending Rules in this section are transitional provisions to allow the IMO to undertake an initial review of the EPL and MRCP under the new framework prior to the remaining proposed Amending Rules to implement the full review and indexation process.

#### **1.13. Specific Transition Provisions for the 2016 Review of the Methodology of the Maximum Reserve Capacity Price**

- 1.13.1. This section 1.13 applies (and clauses 4.16.3(b), 4.16.5, 4.16.6 and 4.16.7 do not apply) in respect of the review and determination of the Maximum Reserve Capacity Price for the 2016 Reserve Capacity Cycle.
- 1.13.2. The IMO must review the methodology and input parameters used to determine the Maximum Reserve Capacity Price, and must propose a revised value for the Maximum Reserve Capacity Price to apply for the 2016 Reserve Capacity Cycle, on or before the date specified in clause 4.1.19.
- 1.13.3. For the purposes of the review under clause 1.13.2, the IMO must prepare a report that addresses each of the following matters:
- (a) the methodology and input parameters that were used to determine the most recent Maximum Reserve Capacity Price in accordance with the Market Procedure referred to in clause 4.16.3;
  - (b) the methodology and input parameters that the IMO proposes to use to determine the Maximum Reserve Capacity Price;
  - (c) the reason why the IMO considers that the methodology and those input parameters are appropriate; and
  - (d) a proposed revised value for the Maximum Reserve Capacity Price to apply for the 2016 Reserve Capacity Cycle, determined in accordance with the methodology outlined under clause 1.13.3(b).
- 1.13.4. The IMO must publish the report prepared in accordance with clause 1.13.3 on the Market Web Site, and must arrange for a public notice to be published in a newspaper that is widely distributed in Western Australia. The public notice must invite all sectors of the Western Australian public to make submissions on the report within six weeks after publication of the report.
- 1.13.5. The IMO must consider all submissions received on the report published under clause 1.13.4, and must prepare an updated report with any modifications that the IMO considers appropriate. The IMO must provide all submissions received on the report and the updated report to the Economic Regulation Authority, with the request for approval of the proposed revised value for the Maximum Reserve Capacity Price, as required by clause 2.26.1.

1.13.6. For the purposes of clause 2.26.1, the proposed revised value for the Maximum Reserve Capacity Price to apply for the 2016 Reserve Capacity Cycle, as specified in the updated report prepared under clause 1.13.5, is deemed to have been proposed in accordance with clause 4.16.

1.13.7. Where the Economic Regulation Authority has approved the proposed revised value for the Maximum Reserve Capacity Price in accordance with clause 2.26.1 at least three Business Days before the date specified in clause 4.1.4, the IMO must publish the report with the approved proposed revised value prepared under clause 4.16.5 on the Market Web Site within three Business Days.

## **1.14 Specific Transition Provisions for the 2016 Review of the Energy Price Limits**

1.14.1. This section 1.14 applies (and clauses 6.20.6, 6.20.7, 6.20.9, 6.20.9A and 6.20.10 do not apply) in respect of the review and determination of the Maximum STEM Price and the Alternative Maximum STEM Price to apply from 1 July 2016.

1.14.2. For the purposes of this section 1.14:

(a) the Maximum STEM Price is:

- (i) the maximum price at which a Market Participant can offer the generation capacity of a Registered Facility to be run on non-liquid fuels in the STEM and the Balancing Market, as determined in accordance with this section 1.14; and
- (ii) is based on the price at which the highest cost 40 MW open cycle gas turbine fuelled by natural gas can recover its short run average costs 80 percent of the time, considering only dispatch cycles up to six hours; and

(b) the Alternative Maximum STEM Price is:

- (i) the maximum Price at which a Market Participant can offer the generation capacity of a Registered Facility to be run on liquid fuels in the STEM and the Balancing Market, as determined in accordance with this section 1.14; and
- (ii) is based on the price at which the highest cost 40 MW open cycle gas turbine fuelled by distillate can recover its short run average costs 80 percent of the time, considering only dispatch cycles up to six hours.

1.14.3. The IMO must:

- (a) review the methodology and input parameters used to determine the Maximum STEM Price and the Alternative Maximum STEM Price;
- (b) calculate the applicable short run average cost by:

(i) determining appropriate values for the following input parameters for the Registered Facility specified in clause 1.14.2(a)(i) and 1.14.2(b)(i):

(1) variable operating and maintaining costs, which must include start-up costs;

(2) mean heat rate at minimum generation capacity;

(3) mean unit fixed fuel costs;

(4) variable fuel costs; and

(5) Loss Factor relative to the Reference Node; and

(ii) determining the Alternative Maximum STEM Price as follows:

*Alternative Maximum STEM Price = Non Fuel + Fuel*

Where:

- Non Fuel is the sum of all components used to calculate the Alternative Maximum STEM Price, and is adjusted by the Loss Factor; and
- Fuel is the sum of all components used to calculate the Alternative Maximum STEM Price which are substantially affected by changes in the fuel price, and is adjusted by the Loss Factor; and

(c) propose a revised value for the Maximum STEM Price and the Alternative Maximum STEM Price to apply from 1 July 2016.

1.14.4. The IMO must commence the review under clause 1.14.3(a) with the objective of completing the review, including consideration of public submissions in relation to that review under clause 1.14.7, so as to allow a reasonable time for the Economic Regulation Authority to decide whether or not to approve any proposed revised values for the Maximum STEM Price and the Alternative Maximum STEM Price to apply from 1 July 2016, in accordance with clause 2.26.1.

1.14.5. For the purposes of the review under clause 1.14.3(a), the IMO must prepare a report that addresses each of the following matters:

(a) the methodology and input parameters that were used to determine the Maximum STEM Price and the Alternative Maximum STEM Price for the purposes of the most recent annual review under clause 6.20.6;

(b) the methodology and input parameters that the IMO proposes to use to determine revised values for the Maximum STEM Price and the Alternative Maximum STEM Price;

(c) the reason why the IMO considers that the methodology and those input parameters are appropriate; and

(d) proposed revised values for the Maximum STEM Price and the Alternative Maximum STEM Price to apply from 1 July 2016, determined in accordance with the methodology outlined under clause 1.14.5(b).

1.14.6. The IMO must publish the report prepared in accordance with clause 1.14.6 on the Market Web Site, and must arrange for a public notice to be published in a newspaper that is widely distributed in Western Australia. The public notice must invite all sectors of the Western Australian public to make submissions on the report within six weeks after publication of the report.

1.14.7. The IMO must consider all submissions received on the report prepared in accordance with clause 1.14.7, and must prepare an updated report with any modifications that the IMO considers appropriate. The IMO must provide all submissions received on the report and the updated report to the Economic Regulation Authority, with the request for approval of the proposed revised values for the Maximum STEM Price and the Alternative Maximum STEM Price, as required by clause 2.26.1.

1.14.8. For the purposes of clause 2.26.1, the proposed revised value for the Maximum STEM Price and the Alternative Maximum STEM Price to apply from 1 July 2016, as specified in the updated report prepared under clause 1.14.7, is deemed to have been proposed in accordance with clause 6.20.

1.14.9. Where the Economic Regulation Authority has approved a proposed revised value for the Maximum STEM Price and Alternative Maximum STEM Price in accordance with clause 2.26.1, the IMO must publish the report with the approved proposed revised value prepared under clause 1.14.8 on the Market Web Site within three Business Days.

...

2.8.13. The following clauses are Protected Provisions:

(a) ~~clauses~~sections 1.1 to 1.3, ~~and 1.5 to 1.9 and 1.13;~~

...

...

2.26.3. The Economic Regulation Authority must review the ~~process~~methodology for ~~determining~~setting the Maximum Reserve Capacity Price and the Energy Price Limits not later than the fifth anniversary of the first Reserve Capacity Cycle and, subsequently, not later than ~~the fifth anniversary of the~~ five years after providing each report to the Minister under clause 2.26.4.~~completion of the preceding review under this clause 2.26.3.~~ A review must examine:

...



## Proposed commencement 1 July 2016

The proposed Amending Rules in this section are implementing the renaming of the different EPL, and the full review and indexation process of the EPL after the commencement of the values determined in the initial review of the EPL under the transitional provisions.

- 2.26.3. The Economic Regulation Authority must review the process for determining the Maximum Reserve Capacity Price and the Energy Price Limits not later than the fifth anniversary of the first Reserve Capacity Cycle and, subsequently, not later than five years after providing each report to the Minister under clause 2.26.4. A review must examine:

...

- (g) the appropriateness of the input parameters and methodology in clause 6.20 for recalculating used to determine the Energy Price Limits in the most recent report published by the IMO under clause 6.20.10 following a review under clause 6.20.5;

*[Drafting Note: Mark-ups are on the basis of previous changes to clause 2.26.3 proposed to commence on 1 August 2015 as outlined in the proposed Amending Rules above.]*

...

- 6.6.2A For:

...

- (d) a Portfolio Supply Curve:

...

- iii. the cumulative MWh quantity over all Price-Quantity Pairs with prices exceeding the Maximum-~~STEM~~ Energy Price must not exceed:

...

...

...

- 6.6.5. For Price-Quantity Pairs in Portfolio Supply Curves:

...

- (b) each Price-Quantity Pair price must be:

...

- iiA. set such that:

1. the sum of the Price-Quantity Pair quantities from Price-Quantity Pairs in the Portfolio Supply Curve with prices exceeding the Maximum-~~STEM~~ Energy Price must not

exceed the cumulative MWh quantity that the Market Participant can offer at the Alternative Maximum-STEM Energy Price, as defined in clause 6.6.2A(d)(iii);

2. the prices for the Price-Quantity Pairs in the Portfolio Supply Curve to which 1 does not relate must not exceed the Maximum-STEM Energy Price;

iii. greater than or equal to the Minimum-STEM Energy Price;

...

...

...

6.6.8. For Price-Quantity Pairs in Portfolio Demand Curves:

(a) each Price-Quantity Pair price must be:

...

ii. less than or equal to the Alternative Maximum-STEM Energy Price;

iii. greater than or equal to the Minimum-STEM Energy Price; and

...

...

...

6.6.10. The IMO must assess an application made under clause 6.6.9 and inform the Market Participant whether or not the application is approved. -The IMO must approve the application only where the Market Participant provides evidence satisfactory to the IMO that:

...

(c) as a consequence of clause 6.6.10(a) and (b), the short run marginal cost of generating electricity using the Scheduled Generator using fuel released under the arrangement would be above the Maximum-STEM Energy Price.

...

6.9.5. The IMO must determine an aggregate STEM bid curve for each Trading Interval from the STEM Bids where this aggregate STEM bid curve:

(a) describes the quantity that Market Participants in aggregate wish to purchase from the IMO through the STEM at every price between, and including, the Minimum-STEM Energy Price and the Alternative Maximum STEM-Energy Price; and

(b) passes through the point indicating zero consumption at the Alternative Maximum-STEM Energy Price.

- 6.9.6. The IMO must determine an aggregate STEM offer curve for each Trading Interval from the STEM Offers where this aggregate STEM offer curve:
- (a) describes the quantity that Market Participants in aggregate wish to sell to the IMO through the STEM at every price between, and including, the ~~Minimum-STEM Energy Price~~ and the ~~Alternative Maximum-STEM Energy Price~~; and
  - (b) passes through the point indicating zero supply at the ~~Minimum-STEM Energy Price~~.

...

6.20.1. The Energy Price Limits are:

- (a) the ~~Maximum-STEM Energy Price~~; which:
  - i. is the maximum price at which a Market Participant can offer the generation capacity of a Registered Facility to be run on non-liquid fuels in the STEM and the Balancing Market, as determined in accordance with this section 6.20; and
  - ii. is based on the price at which the highest cost 40 MW open cycle gas turbine fuelled by natural gas can recover its short run average costs 80 percent of the time, considering only dispatch cycles up to six hours;
- (b) the ~~Alternative Maximum-STEM Energy Price~~; which:
  - i. is the maximum price at which a Market Participant can offer the generation capacity of a Registered Facility to be run on liquid fuels in the STEM and the Balancing Market, as determined in accordance with this section 6.20; and
  - ii. is based on the price at which the highest cost 40 MW open cycle gas turbine fuelled by distillate can recover its short run average costs 80 percent of the time, considering only dispatch cycles up to six hours; and
- (c) the ~~Minimum-STEM Energy Price~~; which:
  - i. is the minimum price at which a Market Participant can offer the generation capacity of a Registered Facility in the STEM and the Balancing Market; and
  - ii. is negative \$1,000 per MWh.

6.20.2. ~~The Maximum STEM Price is the value published on the Market Web Site and revised in accordance with clauses 6.20.6 and 6.20.11. Each year, at least five Business Days before 1 July, the IMO must determine and publish a Maximum Energy Price and an Alternative Maximum Energy Price. The Maximum Energy Price and the Alternative Maximum Energy Price must be:~~

- (a) the prices approved by the Economic Regulation Authority under clause

2.26.1 and published under clause 6.20.10; or

- (b) if the Economic Regulation Authority has not approved the prices under clause 2.26.1, at least ten Business Days before 1 July, the most recent prices determined under clause 6.20.3.

~~6.20.3. Subject to clause 6.20.11, the Alternative Maximum STEM Price is to equal:~~

- (a) ~~from 8 AM on September 1, 2006, \$480/MWh; and~~
- (b) ~~from 8 AM on the first day of each subsequent month the sum of:~~
- i. ~~\$440/MWh multiplied by the amount determined as follows:~~
    1. ~~the average of the Singapore Gas Oil (0.5% sulphur) price, expressed in Australian dollars, for the three months ending immediately before the preceding month as published by the International Energy Agency in its monthly Oil Market Report, or the average of another suitable published price as determined by the IMO, divided by;~~
    2. ~~the average of the Singapore Gas Oil (0.5% sulphur) price, expressed in Australian dollars, for May, June and July 2006 or, if a revised Alternative Maximum STEM Price takes effect in accordance with clause 6.20.11, for the three months ending immediately before the month preceding the month in which the revised Alternative Maximum STEM Price takes effect, as published by the International Energy Agency in its monthly Oil Market Report, or the average of another suitable published price as determined by the IMO; and~~
  - ii ~~from 8 AM on September 1, 2006, to 8 AM on 1 September, 2007, \$40/MWh, and for each subsequent 12-month period \$40/MWh multiplied by the CPI for the June quarter of the relevant 12-month period divided by CPI for the 2006 June quarter or, if a revised Alternative Maximum STEM Price takes effect in accordance with clause 6.20.11, the June quarter of the year in which the revised Alternative Maximum STEM Price takes effect, where CPI is the weighted average of the Consumer Price Index All Groups value of the eight Australian State and Territory capital cities as determined by the Australian Bureau of Statistics;~~

~~rounded to the nearest whole dollar, where a half dollar is rounded up, with the exception that from the date and time that a revised Alternative Maximum STEM Price takes effect in accordance with clause 6.20.11, the revised values supersede the values in 6.20.3(b)(i) and 6.20.3(b)(ii), and are to be the values used in calculating the Alternative Maximum STEM Price for each month subsequent to the month in which the revised Alternative Maximum STEM Price takes effect.~~

6.20.3. Subject to clause 6.20.10, if the Economic Regulation Authority has not approved a price under clause 2.26.1 at least ten Business Days before 1 January, 1 April, 1

July or 1 October, as applicable, then the IMO must determine and publish the Maximum Energy Price and the Alternative Maximum Energy Price that will apply from 8:00 AM on the first day of the relevant quarter, using the following calculations:

(a) for the Maximum Energy Price:

$$\begin{aligned} \text{Maximum Energy Price}(u) \\ = \text{Maximum Energy Price}(u - 1) \times \frac{PPI(u)}{PPI(u - 1)} \end{aligned}$$

Where:

- Maximum Energy Price(u) is the Maximum Energy Price effective in the quarter u ;
- u is the quarter from which the new Maximum Energy Price will apply;
- Maximum Energy Price(u - 1) is the Maximum Energy Price effective in the quarter u - 1 ;
- u - 1 is the last quarter immediately preceding quarter u ;
- PPI(u) is:
  - the Producer Price Index for the total preliminary demand stage of production for the most recent available quarter which ended two months before the quarter u, as published by the Australian Bureau of Statistics (Cat. No. 6427.0); or
  - another suitable published price index as determined by the IMO in its sole discretion; and
- PPI(u - 1) is:
  - The Producer Price Index for the total preliminary demand stage of production for the most recent available quarter which ended two months before the quarter u - 1, as published by the Australian Bureau of Statistics (Cat. No. 6427.0); or
  - another suitable published price index as determined by the IMO in its sole discretion.

(b) for the Alternative Maximum Energy Price:

$$\text{AltMax Energy Price}(u) = \text{Non Fuel}(u) + \text{Fuel}(u)$$

Where:

- AltMax Energy Price(u) is the Alternative Maximum Energy Price effective in the quarter u;
- u is the quarter from which the new Alternative Maximum Energy Price will apply;
- Non Fuel(u) is the non fuel component as calculated for the

Alternative Maximum Energy Price effective in the quarter  $u$ :

- $Fuel(u)$  is the fuel component as calculated for the Alternative Maximum Energy Price effective in the quarter  $u$ :
- $Non\ Fuel(u) = Non\ Fuel(u - 1) \times \frac{PPI(u)}{PPI(u-1)}$ :
- $Non\ Fuel(u - 1)$  is the non fuel component as calculated for the Alternative Maximum Energy Price effective in quarter  $u - 1$ :
- $u - 1$  is the last quarter immediately preceding quarter  $u$  ;
- $PPI(u)$  is:
  - the Producer Price Index for the total preliminary demand stage of production for the most recent available quarter which ended two months before the quarter  $u$ , as published by the Australian Bureau of Statistics (Cat. No. 6427.0); or
  - another suitable published price index as determined by the IMO in its sole discretion;
- $PPI(u - 1)$  is:
  - the Producer Price Index for the total preliminary demand stage of production for the most recent available quarter which ended two months before the quarter  $u - 1$ , as published by the Australian Bureau of Statistics (Cat. No. 6427.0); or
  - another suitable published price index as determined by the IMO in its sole discretion;
- $Fuel(r)$  is the fuel component as calculated for the Alternative Maximum Energy Price effective in month  $r$ ;
- $r$  is the month immediately preceding quarter  $u$ ;
- $Oil\ Price(u)$  is:
  - the average of the Perth Diesel Terminal Gate Price as, published by the Australian Institute of Petroleum, excluding the GST and excise, for the three full, consecutive months published the month before the quarter  $u$ ; or
  - another suitable price as determined by the IMO in its sole discretion; and
- $Oil\ Price(r)$  is:
  - the average of the Perth Diesel Terminal Gate Price, as published by the Australian Institute of Petroleum, excluding the GST and excise, for the three full, consecutive months published the month before the month  $r$ ; or
  - another suitable price as determined by the IMO in its sole discretion.

6.20.4. [Blank] Each month, if:

- (a) the Economic Regulation Authority has not approved a revised value for the Alternative Maximum Energy Price under clause 2.26.1 at least ten Business Days before the first day of the next month; and
- (b) clause 6.20.3 (which relates to the quarterly adjustments) does not apply,

the IMO must determine and publish the Alternative Maximum Energy Price that will apply from 8:00 AM on the first day of the next month. The Alternative Maximum Energy Price must be published at least five Business Days before the first day of the next month, and must be determined using the following calculation:

$$\text{AltMax Energy Price}(u) = \text{Non Fuel}(q) + \text{Fuel}(u)$$

Where:

- AltMax Energy Price}(u) is the Alternative Maximum Energy Price effective in month u;
- u is the month from which the new Alternative Maximum Energy Price will apply;
- Non Fuel}(q) is the non fuel component as calculated for the Alternative Maximum Energy Price effective from date q;
- q is the effective date of the most recent review or update of the Alternative Maximum Energy Price under either clause 6.20.3, 6.20.5 or 6.20.6;
- r is the month immediately preceding month u;
- Fuel}(u) is the fuel component as calculated for the Alternative Maximum Energy Price effective in month u;
- $Fuel}(u) = Fuel}(r) \times \left(1 + \frac{Oil Price}(u)}{Oil Price}(p)\right)$
- Fuel}(r) is the fuel component as calculated for the Alternative Maximum Energy Price effective from date r;
- Oil Price}(u) is:
  - the average of the Perth Diesel Terminal Gate Price, as published by the Australian Institute of Petroleum, excluding the GST and excise, for the three full, consecutive months published the month before the date u; or
  - another suitable price as determined by the IMO in its sole discretion;
- Oil Price}(p) is:
  - the average of the Perth Diesel Terminal Gate Price, as published by the Australian Institute of Petroleum, excluding the GST and excise, for the three full, consecutive months published the month before the date p; or
  - another suitable price as determined by the IMO in its sole

discretion; and

- p is the date where the current Alternative Maximum Energy Price became effective;

6.20.5. ~~[Blank]~~At least once every five years, the IMO must review the methodology and input parameters used to determine the Maximum Energy Price and the Alternative Maximum Energy Price, and must calculate the applicable short run average cost by:

(a) determining appropriate values for the following input parameters for the Registered Facility specified in clause 6.20.1(a) and (b):

i. variable operating and maintaining costs, which must include start-up costs;

ii. mean heat rate at minimum generation capacity;

iii. mean unit fixed fuel cost;

iv. variable fuel cost; and

v. Loss Factor relative to the Reference Node; and

(b) determining the Alternative Maximum Energy Price as follows:

$$\textit{Alternative Maximum Energy Price} = \textit{Non Fuel} + \textit{Fuel}$$

Where:

- Non Fuel is the sum of all components used to calculate the Alternative Maximum Energy Price which are not substantially affected by changes in the fuel price, and is adjusted by the Loss Factor; and
- Fuel is the sum of all components used to calculate the Alternative Maximum Energy Price which are substantially affected by changes in the fuel price, and is adjusted by the Loss Factor.

6.20.6. ~~The IMO must annually review the appropriateness of the value of the Maximum STEM Price and Alternative Maximum STEM Price.~~Subject to clause 6.20.5, the IMO may review the input parameters (but not the methodology) used to determine the Maximum Energy Price or the Alternative Maximum Energy Price at any time where:

(a) there has been a change in the value for one or more of the input parameters addressed in the most recent report published under clause 1.14.9 or 6.20.10; and

(b) the change may lead to a significant and sustained change in the Maximum Energy Price or the Alternative Maximum Energy Price, for reasons including without limitation changes in law.

~~6.20.7 In conducting the review required by clause 6.20.6 the IMO:~~

~~(a) may propose revised values for the following:~~



- ~~i. the Maximum STEM Price, where this is to be based on the IMO's estimate of the short run marginal cost of the highest cost generating works in the SWIS fuelled by natural gas and is to be calculated using the formula in paragraph (b); and~~
  - ~~ii. the Alternative Maximum STEM Price, where this is to be based on the IMO's estimate of the short run marginal cost of the highest cost generating works in the SWIS fuelled by distillate and is to be calculated using the formula in paragraph (b);~~
- ~~(b) must calculate the Maximum STEM Price or Alternative Maximum STEM Price using the following formula:~~

$$\text{(1 + Risk Margin)} \times (\text{Variable O\&M} + (\text{Heat Rate} \times \text{Fuel Cost})) / \text{Loss Factor}$$

Where

- ~~i. Risk Margin is a measure of uncertainty in the assessment of the mean short run average cost for a 40 MW open cycle gas turbine generating station, expressed as a fraction;~~
- ~~ii. Variable O&M is the mean variable operating and maintenance cost for a 40 MW open cycle gas turbine generating station, expressed in \$/MWh, and includes, but is not limited to, start-up related costs;~~
- ~~iii. Heat Rate is the mean heat rate at minimum capacity for a 40 MW open cycle gas turbine generating station, expressed in GJ/MWh;~~
- ~~iv. Fuel Cost is the mean unit fixed and variable fuel cost for a 40 MW open cycle gas turbine generating station, expressed in \$/GJ; and~~
- ~~v. Loss Factor is the marginal loss factor for a 40 MW open cycle gas turbine generating station relative to the Reference Node.~~

~~Where the IMO must determine appropriate values for the factors described in paragraphs (i) to (v) as applicable to the Maximum STEM Price and Alternative Maximum STEM Price.~~

6.20.7. For the purposes of a review under clause 6.20.5 or 6.20.6, the IMO must prepare a report that addresses each of the following matters:

- (a) the methodology and input parameters that were used to determine the Maximum Energy Price and the Alternative Maximum Energy Price for the purposes of the most recent quarterly adjustment under clause 6.20.3;
- (b) in the case of a review under clause 6.20.5 only:
  - i. the methodology that the IMO proposes to use to determine a revised value for the Maximum Energy Price and the Alternative Maximum Energy Price; and

- ii. the reason why the IMO considers that the methodology is appropriate;
  - (c) in the case of a review under clause 6.20.5 or 6.20.6:
    - i. the value that the IMO proposes to use for each of the input parameters to determine a revised value for the Maximum Energy Price and the Alternative Maximum Energy Price; and
    - ii. the reason why the IMO considers that those values are appropriate; and
  - (d) proposed revised values for the Maximum Energy Price and the Alternative Maximum Energy Price, determined in accordance with the methodology outlined under clause 6.20.7(a) in the case of a review under clause 6.20.6 or in accordance with clause 6.20.7(b) in the case of a review under clause 6.20.5.
- 6.20.8. ~~{Blank}~~The IMO must publish the report prepared in accordance with clause 6.20.7 on the Market Web Site, and must arrange for a public notice to be published in a newspaper that is widely distributed in Western Australia. The public notice must invite all sectors of the Western Australian public to make submissions on the report within six weeks after publication of the report.
- ~~6.20.9. In conducting the review required by clause 6.20.6 the IMO must prepare a draft report describing how it has arrived at a proposed revised value of an Energy Price Limit. The draft report must also include details of how the IMO determined the appropriate values to apply for the factors described in clause 6.20.7 (b)(i) to (v). The IMO must publish the draft report on the Market Web Site and advertise the report in newspapers widely published in Western Australia and request submissions from all sectors of the Western Australia energy industry, including end-users, within six weeks of the date of publication.~~
- 6.20.9. The IMO must consider all submissions received on the report prepared in accordance with clause 6.20.7, and must prepare an updated report with any modifications that the IMO considers appropriate. The IMO must provide all submissions received on the report and the updated report to the Economic Regulation Authority, with the request for approval of the proposed revised values for the Maximum Energy Price and the Alternative Maximum Energy Price, as required by clause 2.26.1.
- ~~6.20.9A. Prior to proposing a final revised value to an Energy Price Limit in accordance with clause 6.20.10, the IMO may publish a request for further submissions on the Market Web Site. Where the IMO publishes a request for further submissions in accordance with this clause, it must request submissions from all sectors of the Western Australia energy industry, including end-users.~~
- ~~6.20.10. After considering the submissions on the draft report described in clause 6.20.9, and any submissions received under clause 6.20.9A, the IMO must propose a final revised value for any proposed change to an Energy Price Limit and submit those~~

~~values and its final report, including any submissions received, to the Economic Regulation Authority for approval.~~

6.20.10. Subject to clause 6.20.9, where the Economic Regulation Authority has approved a proposed revised value for the Maximum Energy Price or Alternative Maximum Energy Price in accordance with clause 2.26.1, the IMO must publish the report with the approved proposed revised values prepared under clause 6.20.9 on the Market Web Site within three Business Days.

~~6.20.11. A proposed revised value for any Energy Price Limit replaces the previous value after:~~

~~(a) the Economic Regulation Authority has approved that value in accordance with clause 2.26; and~~

~~(b) the IMO has posted a notice on the Market Web Site of the new value of the applicable Energy Price Limit,~~

~~with effect from the time specified in the IMO's notice.~~

6.20.11. A proposed revised value for the Maximum Energy Price or the Alternative Maximum Energy Price takes effect (and replaces any Maximum Energy Price or Alternative Maximum Energy Price determined under clause 6.20.3) from:

(a) the date and time specified in the report published under clause 6.20.10 where the Economic Regulation Authority has approved the price at least 10 Business Days prior; or

(b) the next quarter starting not earlier than five Business days after the publication of the report under clause 6.20.10 starting on 1 January, 1 April, 1 July or 1 October, where the Economic Regulation Authority has approved the proposed revised value less than 10 Business Days prior the date and time specified in the report published under clause 6.20.10.

...

7A.2.3. A Market Participant with a Balancing Facility that is:

(a) the subject of an Operating Instruction; or

(b) undergoing a Test that has an approved Test Plan,

must ensure that the price in the Balancing Price-Quantity Pair for a Balancing Submission submitted under this clause 7A.2 is at the Minimum-STEM Energy Price for the quantity for each Trading Interval specified in the Operating Instruction or the Test Plan.- The provisions of this clause 7A.2.3 do not apply to the Balancing Portfolio.

...

7A.2.9. Synergy, in relation to the Balancing Portfolio:

...

- (b) must indicate in a manner and form prescribed by the IMO:
  - i. which quantities in the Balancing Portfolio Supply Curve it has priced at the Minimum-~~STEM~~ Energy Price are for Facilities that are to provide LFAS;

...

...

...

7A.3.5. A Market Participant, other than Synergy in respect of the Balancing Portfolio, must make a new Balancing Submission within 30 minutes of the end of the Trading Interval in which the information is published under clause 7B.3.4(e) as follows:

- (a) where its LFAS Price-Quantity Pair is selected under clause 7B.3.4(b) for the Trading Interval, so that the price in the selected LFAS Price-Quantity Pair for the quantity of capacity equal to the Upwards LFAS Enablement of the Facility for that Trading Interval is at the Alternative Maximum-~~STEM~~ Energy Price and the quantity of capacity for the Facility specified in item 1(b)(xiii) of Standing Data is at the Minimum-~~STEM~~ Energy Price; and
- (b) where its LFAS Price-Quantity Pair is selected under clause 7B.3.4(c) for the Trading Interval, so that the price in the selected LFAS Price-Quantity Pair for the sum of the quantity of capacity for the Facility specified in item 1(b)(xiii) of Standing Data, plus the quantity of capacity equal to the Downwards LFAS Enablement of the Facility for that Trading Interval, is at the Minimum-~~STEM~~ Energy Price.

...

10.5.1. The IMO must set the class of confidentiality status for the following information under clause 10.2.1, as Public and the IMO must make each item of information available from the Market Web Site after that item of information becomes available to the IMO:

...

- (e) details of bid, offer and clearing price limits as approved by the Economic Regulation Authority including:
  - i. the Maximum Reserve Capacity Price;
  - ii. the Maximum-~~STEM~~ Energy Price; and
  - iii. the Alternative Maximum-~~STEM~~ Energy Price;including rules that could cause different values to apply at different times;

...

...

# 11 Glossary

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**Alternative Maximum-STEM Energy Price:** ~~The maximum price set in accordance with clause 6.20.3 that may be associated with a Portfolio Supply Curve for a portfolio including Facilities expected to run on Liquid Fuel or any Portfolio Demand Curve forming part of a STEM Submission or Standing STEM Submission.~~ Represents the maximum price per MWh at which a Market Participant can offer the generation capacity of a Registered Facility to be run on liquid fuels in the STEM and the Balancing Market, as determined in accordance with section 6.20.

...

**Consumption Decrease Price:** A price specified in items (h)(vi), (i)(xA)(3) or (i)(xA)(4) of Standing Data, which must be not less than the Minimum-STEM Energy Price and not more than the Alternative Maximum-STEM Energy Price to apply in forming the Non-Balancing Dispatch Merit Order for a Trading Interval for a Dispatchable Load or Demand Side Programme and in the calculation of the Non-Balancing Facility Dispatch Instruction Payment for that Dispatchable Load or Demand Side Programme for that Trading Interval, which varies for Peak Trading Intervals and Off-Peak Trading Intervals.

**Consumption Increase Price:** A price specified in items (i)(xA)(1) or (i)(xA)(2) of Standing Data, which must be not less than the Minimum-STEM Energy Price, not more than the Alternative Maximum-STEM Energy Price to apply in forming the Non-Balancing Dispatch Merit Order for a Trading Interval for a Dispatchable Load and in the calculation of the Non-Balancing Facility Dispatch Instruction Payment for that Dispatchable Load for that Trading Interval, which varies for Peak Trading Intervals and Off-Peak Trading Intervals.

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**Energy Price Limits:** The set of price limits comprising the Maximum-STEM Energy Price, the Alternative Maximum-STEM Energy Price and the Minimum-STEM Energy Price.

...

**Maximum-STEM Energy Price:** ~~The price determined in accordance with clause 6.20.2 as the maximum price that may be associated with a Portfolio Supply Curve for a portfolio including no Facilities expected to run on Liquid Fuel forming part of a STEM Submission or Standing STEM Submission.~~ Is the maximum price in MWh at which a Market Participant can offer the generation capacity of a Registered Facility to be run on non-liquid fuels in the STEM and the Balancing Market, as determined in accordance with section 6.20.

...

**Minimum-STEM Energy Price:** ~~Means~~ Is the minimum price at which a Market Participant can offer the generation capacity of a Registered Facility in the STEM and the Balancing Market and is negative \$1,000.00 per MWh.

...

**Price Cap: Means:**

- (a) a maximum price of:
  - i. for a Balancing Facility to run on Non-Liquid Fuel, the Maximum ~~STEM Energy Price~~; or
  - ii. for a Balancing Facility to run on Liquid Fuel, the Alternative Maximum-~~STEM Energy Price~~; and
- (b) a minimum price of the Minimum-~~STEM Energy Price~~.

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## Appendix 6: STEM Price Curve Determination

The first part of this appendix describes a process for converting a Market Participant's Portfolio Supply Curve and Portfolio Demand Curve into a single STEM Price Curve and to then convert a Market Participant's STEM Price Curve into STEM Bids and STEM Offers relative to its Net Bilateral Position.

For each Market Participant and for each Trading Interval in the Trading Day except those for which the IMO has recorded that the Market Participant has not made a STEM Submission:

- (a) Determine for every price between the Minimum-~~STEM Energy Price~~ and the Alternative Maximum-~~STEM Energy Price~~:
  - ...
- (b) If the minimum quantity in a STEM Price Curve is greater than the Net Bilateral Position of the Market Participant then extend the STEM Price Curve to include the range between the Net Bilateral Position and the minimum quantity in the STEM Price Curve where this range is priced at the Minimum-~~STEM Energy Price~~.
- (c) If the maximum quantity in a STEM Price Curve is less than the Net Bilateral Position of the Market Participant then extend the STEM Price Curve to include the range between the maximum quantity in the STEM Price Curve and the Net Bilateral Position where this range is priced at the Alternative Maximum-~~STEM Energy Price~~.

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### Proposed commencement 1 January 2017

The proposed Amending Rules in this section are implementing the full review and indexation process of the MRCP after the commencement of the value determined in the initial review of the MRCP under the transitional provisions.

2.26.3. The Economic Regulation Authority must review the process for determining the

Maximum Reserve Capacity Price and the Energy Price Limits not later than the fifth anniversary of the first Reserve Capacity Cycle and, subsequently, not later than five years after providing each report to the Minister under clause 2.26.4. A review must examine:

...

- (f) the appropriateness of the input parameters and methodology in clauses 4.16 and the Market Procedure referred to in clause 4.16.3 for recalculating used to determine the Maximum Reserve Capacity Price in the most recent report published by the IMO under clause 4.16.8;

...

*[Drafting Note: Mark-ups are on the basis of previous changes to clause 2.26.3 proposed to commence on 1 August 2015 as outlined on page 14 of this Rule Change Proposal.]*

...

- 4.1.19. The IMO must commence a review of the Maximum Reserve Capacity Price as required by clause 4.16.34 with the objective of completing the review, including consideration of public submissions in relation to that review, so as to allow a reasonable time for;
- (a) the Economic Regulation Authority to decide whether or not to approve any proposed revised value for the Maximum Reserve Capacity Price in accordance with clause 2.26.1; change in value and
- (b) the revised value (if approved by the Economic Regulation Authority under clause 2.26.1) to be published under clause 4.16.2 for that value to be implemented prior to the date and time specified in clause 4.1.4 as applicable to the next that relates to the following Reserve Capacity Cycle.

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~~4.16.1. For all Reserve Capacity Cycles, the IMO must publish a Maximum Reserve Capacity Price as determined in accordance with this clause 4.16 prior to the time specified in clause 4.1.4.~~

4.16.1. The Maximum Reserve Capacity Price is the maximum price at which Market Participants can offer Reserve Capacity in the Reserve Capacity Auction, as determined in accordance with this section 4.16.

~~4.16.2. The Maximum Reserve Capacity Price to apply for the first Reserve Capacity Cycle is \$150,000 per MW per year.~~

4.16.2. For each Reserve Capacity Cycle, prior to the date and time specified in clause 4.1.4 for the advertisement of the Request for Expressions of Interest, the IMO must determine and publish a Maximum Reserve Capacity Price. The Maximum Reserve Capacity Price must be:

- (a) the price approved by the Economic Regulation Authority under clause 2.26.1 and published under clause 4.16.8;
- (b) the price approved by the Economic Regulation Authority under clause 2.26.1 and published under clause 4.16.14; or
- (c) if the Economic Regulation Authority has not approved a price under clause 2.26.1 at least three Business Days before the date specified in clause 4.1.4, the price determined under clause 4.16.3.

...

~~4.16.3 The IMO must develop a Market Procedure documenting the methodology it uses and the process it follows in determining the Maximum Reserve Capacity Price, and:~~

- ~~(a) the IMO and Rule Participants must follow that documented Market Procedure when conducting any review and consultations in accordance with that Market Procedure and clause 4.16.6; and~~
- ~~(b) the IMO must follow the documented Market Procedure to annually review the value of the Maximum Reserve Capacity Price in accordance with this clause 4.16 and in accordance with the timing requirements specified in clause 4.1.19.~~

4.16.3. If the Economic Regulation Authority has not approved a price under clause 2.26.1 at least three Business Days before the date specified in clause 4.1.4 then the IMO must determine the Maximum Reserve Capacity Price that will apply for that Reserve Capacity Cycle by adjusting the Maximum Reserve Capacity Price that applied for the previous Reserve Capacity Cycle, using the following calculation:

$$\underline{MRCP(u) = MRCP(u - 1) \times \frac{PPI(u)}{PPI(u - 1)}}$$

Where:

- MRCP(u) is the Maximum Reserve Capacity Price for the Reserve Capacity Cycle u;
- u is the Reserve Capacity Cycle for which the new Maximum Reserve Capacity Price will apply;
- MRCP(u - 1) is the Maximum Reserve Capacity Price for the Reserve Capacity Cycle (u - 1);
- u - 1 is the last Reserve Capacity Cycle immediately preceding the Reserve Capacity Cycle u ;
- PPI(u) is:
  - the Producer Price Index for the total preliminary demand stage of production for the most recent available quarter in year 1 of Reserve Capacity Cycle u, as published by the Australian Bureau of Statistics (Cat. No. 6427.0); or



- another suitable published price index as determined by the IMO in its sole discretion; and
  - $PPI(u - 1)$  is:
    - the Producer Price Index for the total preliminary demand stage of production for the most recent available quarter in Year 1 of Reserve Capacity Cycle ( $u - 1$ ), as published by the Australian Bureau of Statistics (Cat. No. 6427.0); or
    - another suitable published price index as determined by the IMO in its sole discretion.
- 4.16.4. ~~[Blank]~~At least once every five years, the IMO must review the methodology and input parameters used to determine the Maximum Reserve Capacity Price, and must propose a revised value for the Maximum Reserve Capacity Price.
- ~~4.16.5. The IMO must propose a revised value for the Maximum Reserve Capacity Price using the methodology described in the Market Procedure referred to in clause 4.16.3.~~
- 4.16.5. For the purposes of the review under clause 4.16.4, the IMO must prepare a report that addresses each of the following matters:
- (a) the methodology and input parameters that were used to determine the Maximum Reserve Capacity Price in the most recent report published under:
    - (i) clause 4.16.14; or
    - (ii) if there has been no report published under clause 4.16.14 since the last report published under clause 1.13.7 or 4.16.8, the last report published under clause 1.13.7 or 4.16.8;
  - (b) the methodology and input parameters that the IMO proposes to use to determine the Maximum Reserve Capacity Price;
  - (c) the reason why the IMO considers that the proposed methodology and input parameters are appropriate; and
  - (d) a proposed revised value for the Maximum Reserve Capacity Price, determined in accordance with the methodology outlined under clause 4.16.5(b).
- 4.16.6. ~~The IMO must prepare a draft report describing how it has arrived at a proposed revised value for the Maximum Reserve Capacity Price under clause 4.16.5. The IMO must publish the report prepared in accordance with clause 4.16.5 on the Market Web Site Web Site, and must arrange for a public notice to be published advertise the report in a newspapers that is widely distributed in Western Australia. The public notice must invite all sectors of the Western Australian public to make submissions on the report within six weeks after publication of the report, and request submissions from all sectors of the Western Australia energy industry,~~

including end-users.

~~4.16.7. After considering of the submissions on the draft report described in clause 4.16.6 the IMO must propose a final revised value for the Maximum Reserve Capacity Price and publish that value and its final report, including submissions received on the draft report on the Market Web Site.~~

4.16.7. The IMO must consider all submissions received on the report published under clause 4.16.6, and must prepare an updated report with any modifications that the IMO considers appropriate. The IMO must provide all submissions received on the report and the updated report to the Economic Regulation Authority, with the request for approval of the proposed revised value for the Maximum Reserve Capacity Price, as required by clause 2.26.1.

~~4.16.8. A proposed revised value for the Maximum Reserve Capacity Price becomes the Maximum Reserve Capacity Price after the IMO has posted a notice on the Market Web Site of the new value of the Maximum Reserve Capacity Price with effect from the time specified in the IMO's notice. Subject to clause 4.16.7, where the Economic Regulation Authority has approved the proposed revised value for the Maximum Reserve Capacity Price in accordance with clause 2.26.1 at least three Business Days before the date specified in clause 4.1.4, the IMO must publish the report with the approved proposed revised value prepared under clause 4.16.7 on the Market Web Site within three Business Days.~~

~~4.16.9. At least once in every five year period, the IMO must review the Market Procedure referred to in clause 4.16.3 and must undertake a public consultation process in respect of the outcome of the review.~~

4.16.9. For the purpose of a review under clause 4.16.4, a proposed revised value for the Maximum Reserve Capacity Price takes effect from the time and date specified in the report published under clause 4.16.8.

4.16.10. Subject to clause 4.16.4, the IMO may review the input parameters (but not the methodology) used to determine the Maximum Reserve Capacity Price at any time where:

- (a) there has been a change in the value for one or more of the input parameters in the most recent report published under:
  - (i) clause 4.16.14; or
  - (ii) if there has been no report published under clause 4.16.14 since the last report published under clause 1.13.7 or 4.16.8, the last report published under clause 1.13.7 or 4.16.8; and
- (b) the change may lead to a significant and sustained change in the Maximum Reserve Capacity Price, for reasons including without limitation a change in law.

4.16.11. For the purposes of the review under clause 4.16.10, the IMO must prepare a

report that addresses each of the following matters:

- (a) the methodology and input parameters that were used to determine the Maximum Reserve Capacity Price in the most recent report published under:
  - (i) clause 4.16.14; or
  - (ii) if there has been no report published under clause 4.16.14 since the last report published under clause 4.16.8, the last report published under clause 4.16.8;
- (b) the value that the IMO proposes to use for each of the input parameters to determine a revised value for the Maximum Reserve Capacity Price;
- (c) the reason why the IMO considers that the proposed input parameters are appropriate; and
- (d) a proposed revised value for the Maximum Reserve Capacity Price, determined in accordance with the methodology outlined under clause 4.16.11(a).

4.16.12. The IMO must publish the report prepared in accordance with clause 4.16.11 on the Market Web Site, and must arrange for a public notice to be published in a newspaper that is widely distributed in Western Australia. The public notice must invite all sectors of the Western Australian public to make submissions on the report within six weeks after publication of the report.

4.16.13. The IMO must consider all submissions received on the report published under clause 4.16.12, and must prepare an updated report with any modifications that the IMO considers appropriate. The IMO must provide all submissions received on the report and the updated report to the Economic Regulation Authority, with the request for approval of the proposed revised value for the Maximum Reserve Capacity Price, as required by clause 2.26.1.

4.16.14. Subject to clause 4.16.13, where the Economic Regulation Authority has approved the proposed revised value for the Maximum Reserve Capacity Price in accordance with clause 2.26.1 at least three Business Days before the date specified in clause 4.1.4, the IMO must publish the report with the approved proposed revised value prepared under clause 4.16.13 on the Market Web Site within three Business Days.

4.16.15. For the purpose of a review under clause 4.16.10, a proposed revised value for the Maximum Reserve Capacity Price takes effect from the date and time specified in the report published under clause 4.16.14.

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# Glossary

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**Maximum Reserve Capacity Price:** ~~In respect of a given Reserve Capacity Cycle, the in clause 4.16.2 as revised~~ Is the maximum price in MW per year at which Market Participants can offer Reserve Capacity in the Reserve Capacity Auction, as determined in accordance with clause section 4.16.

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## 4. Describe how the Rule Change Proposal would allow the Market Rules to better address the Wholesale Market Objectives:

The IMO considers that the proposed amendments will better address Wholesale Market Objectives (a) and (d):

- (a) to promote the economically efficient, safe and reliable production and supply of electricity and electricity related services in the South West interconnected system; and
- (d) to minimise the long-term cost of electricity supplied to customers from the South West interconnected system.

The proposed changes will decrease the IMO's costs by around \$500,000 every five years as a result of shifting from an annual cycle to a five-yearly review cycle. The proposed changes would still reflect changes in the economic considerations of Market Generators due to the price indexations and allowing in-period reviews where significant events occur. Therefore, the proposed changes will minimise the long term costs of electricity supply while still promoting the economically efficient production and supply of electricity.

The IMO also considers that a change to a less frequent review of these prices would increase regulatory certainty for Market Participants and therefore promote the economically efficient and reliable production and supply of electricity.

The IMO considers that shifting the documentation of the methodology the IMO uses to determine the MRCP from a Market Procedure to the report for the five-yearly review will increase the efficiency of the review process decrease the cost of administrating the WEM.

The IMO also considers that the proposed changes to clarify definitions, re-structure the sections of the Market Rules related to determining the EPL and MRCP and correcting minor administrative and typographical errors will provide for more transparent and accurate Market Rules and therefore promote an efficient process, reducing the cost of administering the WEM.

The IMO considers that the proposed amendments are consistent with the remaining Wholesale Market Objectives.

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

### **Costs:**

It is likely that the IMO will incur some minor costs to implement the necessary process and system changes to facilitate this Rule Change Proposal. The IMO does not expect these costs to be significant and is investigating how the additional costs can be accommodated in the IMO's existing budget.

The IMO does not expect that any Market Participants will incur any significant cost associated with the proposed changes.

### **Benefits:**

The IMO expects savings of around \$500,000 over each five year period related to the engagement of external consultants to undertake various components of the EPL and MRCP review which will no longer be required.

The IMO also expects cost reductions for the ERA and Market Participants as the frequency of consulting on the IMO's review will be reduced.

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## **6. Provide any identifiable issues with respect to the practicality of implementation:**

The IMO notes that the indexation of the EPL and MRCP might not be suitable for the current EPL and MRCP which were determined under the current Market Rules. Therefore, the IMO proposes to stage the commencement of the proposed Amending Rules, to undertake a thorough review of the methodology and the input parameters for the EPL and the MRCP in accordance with the proposed new processes before moving to a five-yearly review and indexing the prices. The IMO proposes to stage the commencement of the proposed Amending Rules as follows:

- commence the proposed amendments to clauses 1.13.1 to 1.13.7, 1.14.1 to 1.14.9, 2.8.13 and 2.26.3 of the Market Rules on 1 August 2015;
- commence the proposed amendments to clauses 6.6.2A, 6.6.5, 6.6.8, 6.6.10, 6.9.5, 6.9.6, 6.20.1 to 6.20.11, 7A.2.3, 7A.2.9, 7A.3.5, 10.5.1 and the Glossary and further amendments to clause 2.26.3 of the Market Rules at the time the value for the EPL determined in accordance with 1.14 becomes effective on 1 July 2016; and
- commence the proposed amendments to clauses 4.1.19 and 4.16.1 to 4.16.15 and the Glossary and further amendments to clause 2.26.3 of the Market Rules at the time the value for the Maximum Reserve Capacity Price determined in accordance with 1.13 becomes effective on 1 January 2017.

The IMO notes that proposed amendments to clauses 2.8.13, 4.1.19 and the clauses in section 4.16 of the Market Rules are Protected Provisions. The IMO also proposes that the clauses in section 1.13 of the Market Rules are made Protected Provisions. Under clause 2.8.3 of the Market Rules, proposed amendments to a Protected Provision require the proposed Amending Rules in this Rule Change Proposal to be approved by the Minister.

The IMO also notes, that the proposed amended clause 7A.2.9 is a Category C civil penalty provision. Therefore the IMO will engage with the PUO regarding the proposed changes.

This Rule Change Proposal will result in the removal of the Market Procedure: Maximum Reserve Capacity Price.

The IMO notes that this Rule Change Proposal will require minor amendments to the following Market Procedures to reflect the changes to the names of the different EPL:

- Market Procedure: Information Confidentiality
- Market Procedure: Balancing Facility Requirements
- Market Procedure: Balancing Market Forecast
- Reserve Capacity Procedure: Supplementary Reserve Capacity

The proposed commencement date of the change of the names of the EPL allows enough time for the IMO to process the necessary Procedure Change Proposals.

This Rule Change Proposal will require minimal system changes for the IMO change the names of the EPL.

The IMO notes that the Rule Change Proposal: Changes to the Reserve Capacity Price and the Dynamic Reserve Capacity Refund Regime (RC\_2013\_20)<sup>8</sup> also proposes changes to the Maximum Reserve Capacity Price. However, the IMO does not consider that this will affect the proposed changes, except to the extent that RC\_2013\_20 proposes to change the term 'Maximum Reserve Capacity Price' to 'Benchmark Reserve Capacity Price'.

The IMO notes that the Rule Change Proposal: Outage Planning Phase 2 - Outage Process Refinements (RC\_2013\_15)<sup>9</sup> also proposes changes to clause 7A.2.9 of the Market Rules which is affected by the replacement of the term 'STEM' by 'Energy' in the name of the EPL proposed in this Rule Change Proposal (issue 1). The IMO does not consider that this will affect the proposed changes.

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<sup>8</sup> Further information is available at: [www.imowa.com.au/RC\\_2013\\_20](http://www.imowa.com.au/RC_2013_20).

<sup>9</sup> Further information is available at: [www.imowa.com.au/RC\\_2013\\_15](http://www.imowa.com.au/RC_2013_15).