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## Wholesale Electricity Market Pre Market Rule Change Discussion Paper

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### Submitted by

<b>Name:</b>	Alistair Butcher
<b>Phone:</b>	9427 5787
<b>Fax:</b>	9427 4228
<b>Email:</b>	<a href="mailto:Alistair.butcher@westernpower.com.au">Alistair.butcher@westernpower.com.au</a>
<b>Organisation:</b>	System Management
<b>Address:</b>	
<b>Date submitted:</b>	13 February 2008
<b>Urgency:</b>	Fast track
<b>Change Proposal title:</b>	Dispatch support ancillary services
<b>Market Rule(s) affected:</b>	Clauses 2.23, 3.13 and new clause 3.11.8A to D

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### Introduction

This Pre Market Rule Change Discussion Paper can be posted, faxed or emailed to:

**Independent Market Operator**

Attn: Dora Guzeleva, Manager Market Administration  
PO Box 7096  
Cloisters Square, Perth, WA 6850

Fax: (08) 9254 4399

Email: [marketadmin@imowa.com.au](mailto:marketadmin@imowa.com.au)

The discussion paper should explain how it will enable the Market Rules to better contribute to the achievement of the wholesale electricity market objectives. The objectives of the market are:

- (a) to promote the economically efficient, safe and reliable production and supply of electricity and electricity related services in the South West interconnected system;
- (b) to encourage competition among generators and retailers in the South West interconnected system, including by facilitating efficient entry of new competitors;
- (c) to avoid discrimination in that market against particular energy options and technologies, including sustainable energy options and technologies such as those that make use of renewable resources or that reduce overall greenhouse gas emissions;
- (d) to minimise the long-term cost of electricity supplied to customers from the South West interconnected system; and
- (e) to encourage the taking of measures to manage the amount of electricity used and when it is used.

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## Details of the proposed Market Rule Change

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### 1) Outline the issue concerning the existing Market Rules that is to be addressed by the proposed Market Rule change:

The Market Rules make provision for a class of ancillary services called “dispatch support”. Dispatch support arrangements are designed to allow the dispatch of facilities to support the security and reliability of the network.

System Management currently utilises several strategically located Verve Energy facilities for dispatch support purposes, but may utilise other facilities. Limited mechanisms exist for System Management to procure – and pay for – the dispatch support services it acquires, and Verve Energy is not compensated for this out-of-merit use, as the allowable revenue for ancillary services did not seek provision for dispatch support (the value of “D” in “Cost\_LRD”, as defined in clause 2.23.12(d)(iii) was set at zero).

System Management may make application to vary the ancillary services allowable revenue where it is necessary to procure additional ancillary services, or, in this case, to ensure that appropriate compensation is paid for those facilities that offer dispatch support services pursuant to the Market Rules.

Clause 2.23 of the Market Rules, which provides for System Management’s allowable revenue for both system operation services and ancillary services, may be adjusted within a “review period” in certain circumstances. Prima facie, System Management may apply to include a dispatch support component within the allowable revenue. Both System Management and the IMO are of the view that it is not feasible to propose a particular amount for dispatch support, as this value will vary significantly on a month-by-month basis, depending on the amount of dispatch support obtained. Consequently, it is considered that adopting a formula as the value of “D” will best reflect the amount of dispatch support acquired in any given month.

However, the Economic Regulation Authority has expressed some doubts concerning whether System Management may propose, and the Authority may approve, a value for dispatch support which is based around a formula; that is, the Authority considers that the Market Rules may require System Management to propose a particular amount for dispatch support.

In order to deal with this potential impasse, and to ensure Verve Energy (and other potential suppliers of dispatch support) is adequately compensated, it is proposed to amend the Market Rules to remove the value of “dispatch support” from the clause 2.23 allowable revenue and budget approval processes.

It is important to note that System Management does not propose to amend the Market Rules to remove regulatory oversight/approval of dispatch support arrangements, merely to remove dispatch support from impacting upon the budget. Therefore the amendments refer to the Authority being satisfied that the requirements of clause 3.11.9 are met.

System Management is reviewing the operation of clause 3.11.9, as it is concerned that it imposes a narrow obligation for System Management to “seek to minimise the cost” of meeting its obligations under clause 3.12.1 (procurement of adequate ancillary services). This obligation would not appear to adequately address other factors that a prudent system operator should have regard to in procuring ancillary services.

A number of changes to the Market Rules are necessary to:

- allow System Management to enter into dispatch support arrangements, provided that regulatory approval is given;
- mandate that the ERA must follow a public consultation process in assessing proposed dispatch support arrangements; and
- remove the concept of dispatch support from “Cost\_LRD” in clause 2.23 (budgets), but ensuring that settlement mechanisms are unchanged.

## 2) Explain the reason for the degree of urgency:

System Management submits that the above rule changes be proceeded with under the “fast track” rule change process, on the basis that it is required to correct a manifest error.

If the ERA does not consider that the inclusion of a formula as the value of “D” in clause 2.23 is consistent with the Market Rules, and requires a particular amount to be proposed, settlement mechanisms would not be effective.

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

The following proposed amendments are not necessarily final, and are subject to a further review of the linkages within the Market Rules.

2.23.12 The Economic Regulation Authority must take the following into account when determining the allowable revenue of System Management:

...

- (d) the determination of the Allowable Revenue of Ancillary Service provision must take into account the payment structure set out in clause 3.13, and the Economic Regulation Authority must determine values for:

...

lii Cost\_LRD, which must cover the costs for providing the Load Rejection Reserve, and System Restart and Dispatch Support Ancillary Services, but does not take into account the costs for providing Dispatch Support Ancillary Services.

3.11.8 System Management may enter into an Ancillary Service Contract with a Rule Participant other than the Electricity Generation Corporation, for Spinning Reserve and Load Following Ancillary Services, where:

...

3.11.8A System Management may enter into an Ancillary Service Contract with a Rule Participant for Load Rejection Reserve, System Restart and Dispatch Support Ancillary Services.

3.11.8B System Management must seek the approval of the Economic Regulation Authority before entering into an Ancillary Service Contract.

3.11.8C The Economic Regulation Authority must approve an Ancillary Service Contract which satisfies the requirements of clause 3.11.9.

3.11.8D The Economic Regulation Authority must undertake a public consultation process, which must include publishing an issues paper and issuing an invitation for public submissions in determining whether to approve the Ancillary Service Contract for Dispatch Support Service.

3.13.1 The total payments by the IMO on behalf of System Management for Ancillary Services in accordance with Chapter 9 comprise:

...

- (d) Cost\_LRD, the monthly amount for Load Rejection Reserve, ~~and System Restart services and Dispatch Support services~~, determined in accordance with System Management's budget process described in clause 2.23, and Dispatch Support service determined in accordance with clause 3.11.8C and 3.11.8D.

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

This proposed Rule Change would better address objectives (a), (b) and (d) of the Market Objectives. The changes as submitted would promote the economically efficient, safe and reliable production and supply of electricity and electricity related services in the South West interconnected system, as well as minimise the long-term cost of electricity through the provision of dispatch support arrangements, rather than reliance on potentially significant network augmentations.

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

The proposed change to the Market Rule does not incur additional costs and benefits. The proposed change merely removes Dispatch Support ancillary service from being part of System Management's allowable revenue, but ensures that regulatory approval of dispatch support contracts, and a public consultation process, remains.

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