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## Agenda item 5(a) vi

### Wholesale Electricity Market Rule Change Proposal Form

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**Change Proposal No:** PRC\_2009\_23

**Received date:** TBA

**Change requested by:**

<b>Name:</b>	Chris Brown
<b>Phone:</b>	(08) 9213-1992
<b>Fax:</b>	(08) 9213-1999
<b>Email:</b>	<a href="mailto:chris.brown@era.wa.gov.au">chris.brown@era.wa.gov.au</a>
<b>Organisation:</b>	Economic Regulation Authority
<b>Address:</b>	Level 6, Governor Stirling Tower, 197 St George's Terrace
<b>Date submitted:</b>	TBN
<b>Urgency:</b>	High
<b>Change Proposal title:</b>	System Management Review Period Budget Coverage Amendment
<b>Market Rule(s) affected:</b>	2.23.1, 2.23.2, 2.23.3, 2.23.5, 2.23.7, 2.23.12, 3.11.11, 3.11.14, 3.13.1, 3.13.3, 3.13.3A (new), 3.22.1 and 9.9.1

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### Introduction

Market Rule 2.5.1 of the Wholesale Electricity Market Rules provides that any person (including the IMO) may make a Rule Change Proposal by completing a Rule Change Proposal Form that must be submitted to the Independent Market Operator.

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

**Independent Market Operator**

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

Fax: (08) 9254 4339

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

The Independent Market Operator will assess the proposal and, within 5 Business Days of receiving this Rule Change Proposal form, will notify you whether the Rule Change Proposal will be further progressed.

In order for the proposal to be progressed, all fields below must be completed and the change proposal must explain how it will enable the Market Rules to better contribute to the achievement of the wholesale electricity market objectives. The objectives of the market are:

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

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## **Details of the proposed Market 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:**

#### **Background**

System Management has the responsibility of determining all Ancillary Service Requirements in accordance with the South West interconnected system (SWIS) Operating Standards and the Ancillary Service standards. This is a quantity determination and not a payment determination. System Management also has responsibility for procuring these Ancillary Service Requirements, with Verve Energy required to provide the remaining requirements.

Ancillary Service payments are either determined from the terms in Ancillary Service Contracts or as specified in the Wholesale Electricity Market Rules (Market Rules). These payments are made by the Independent Market Operator.

Currently, clause 2.23 of the Market Rules (Determination of System Management's budget) is drafted as if the Ancillary Services are paid out of System Management's budget. It thus imposes on System Management a requirement to propose an Ancillary Services budget for the relevant three-yearly Allowable Revenue Review Period.

#### **Proposal**

The primary purpose of this Rule Change Proposal is to remove the requirement for System Management to propose an Ancillary Services budget for the relevant three-yearly Review Period. This will in effect leave System Management with the requirement to propose a budget to cover its system operation services only (see clause 2.23.1(a)).

This Rule Change Proposal also proposes to amend the Market Rules to state that the IMO is responsible for proposing the Margin\_Peak, Margin\_Off-Peak and Cost\_LRD parameters. This would be a new responsibility for the IMO if this Rule Change Proposal was to proceed.

## Overview of proposed rule changes

In order to remove the requirement for System Management to propose an Ancillary Services budget for the relevant three-yearly Review Period, it is proposed to amend clauses 2.23.1, 2.23.2, 2.23.3, 2.23.5, 2.23.7, 2.23.12, 3.11.11, 3.11.14, 3.13.1, 3.13.3, 3.13.3A (new), 3.22.1 and 9.9.1 in the Market Rules.

An explanation of the proposed amendments to the abovementioned clauses are as follows:

Clause	Explanation of proposed amendments
2.23.1	Modified subclause (a) is an editorial change only. Deleted subclause (b) recognises that System Management does not have to cover Ancillary Service payments out of their budget.
2.23.2	Editorial change only.
2.23.3	Modified subclause (c) is an editorial change only.
2.23.5	Editorial change only.
2.23.7	Editorial change only.
2.23.12	Deleted subclauses (d) and (e) and moved to new clause 3.13.3A subclause (a). With the Ancillary Service budget removed from System Management budget, these subclauses do not fit in here any more.
3.11.11	Deleted subclause (d) recognises that System Management does not have to cover Ancillary Service payment out of their budget. There is no apparent budget for Ancillary Services as they are paid in accordance with the Market Rules formulas.
3.11.14	Modified subclause (b) is an editorial change only. Deleted subclause (c) recognises that System Management does not have to cover Ancillary Service payments out of their budget.
3.13.1	This amendment is a clean up of the Market Rules subsequent to the commencement of Amending Rules as set out in Rule Change RC_2008_12 <i>Dispatch support ancillary services</i> . Prior to the commencement of the Amending Rules set out in RC_2008_12, Cost LRD used to refer to Load Rejection, System Restart and Dispatch Support. RC_2008_12 removed Dispatch Support from Cost LRD.
3.13.3	Editorial changes only.
3.13.3A	Subclause (a) added here is the original clause 2.23.12 subclauses (d) and (e), with the IMO being responsible for proposing Margin_Peak, Margin_Off-Peak and Cost_LRD (this is a new responsibility for the IMO). Subclauses (b) and (c) added here are the original clause 2.23.3 subclauses (b) and (c), repeated.
3.22.1	Editorial changes only.
9.9.1	Editorial changes only – related to proposed amendments to clause 3.13.1.

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

The ERA submits that this rule change be progressed by the Standard Rule Change Process.

**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)

- 2.23.1. For the purposes of this clause 2.23, the services provided by System Management are:
- (a) system operation services, including all of System Management's functions and obligations under these Market Rules, ~~except the provision of Ancillary Services; and~~
  - (b) ~~System Management's functions and obligations under these Market Rules in relation to the provision of Ancillary Services.~~
- 2.23.2. For each year until the process referred to in clause 2.23.3 to 2.23.10 applies, the Shareholding Minister must determine the budget of System Management for ~~each of the~~ services described in clause 2.23.1.
- 2.23.3. For each Review Period, System Management must seek the approval of its Allowable Revenue from the Economic Regulation Authority in accordance with the following:
- ...
- (c) by 31 March of the year in which the Review Period commences, the Economic Regulation Authority must determine the Allowable Revenue of System Management for the Review Period for ~~each of the~~ services described in clause 2.23.1.
- 2.23.5. Following the first determination of the Allowable Revenue of System Management by the Economic Regulation Authority in accordance with clause 2.23.3, by 30 April each year System Management must prepare a budget proposal for ~~each of the~~ services described in clause 2.23.1 for the coming Financial Year.
- 2.23.7. Where the revenue earned for a service described in clause 2.23.1 via System Operation Fees ~~or Ancillary Service payments~~ in the previous Financial Year is greater than or less than System Management's expenditure for that Financial Year, the current year's budget must take this into account by decreasing the budgeted revenue by the amount of the surplus or adding to the budgeted revenue the amount of any shortfall, as the case may be.
- 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:~~
    - i. ~~the reserve availability payment margin applying for Peak Trading Intervals, Margin\_Peak, which must take account of:~~
      - 1. ~~the margin the Electricity Generation Corporation could reasonably have been expected to earn on energy sales forgone due to the supply of Spinning Reserve during Peak Trading Intervals;~~
      - 2. ~~the loss in efficiency of the Electricity Generation Corporation Registered Facilities that System Management has scheduled to provide Spinning~~

~~Reserve during Peak Trading Intervals that could reasonably be expected due to the scheduling of those reserves;~~

- ii. ~~the reserve availability payment margin applying for Off Peak Trading Intervals, Margin\_Off-Peak, which must take account of:~~
  - 1. ~~the margin the Electricity Generation Corporation could reasonably have been expected to earn on energy sales forgone due to the supply of Spinning Reserve during Off Peak Trading Intervals;~~
  - 2. ~~the loss in efficiency of the Electricity Generation Corporation Registered Facilities that System Management has scheduled to provide Spinning Reserve during Off Peak Trading Intervals that could reasonably be expected due to the scheduling of those reserves;~~
- iii. ~~Cost\_LRD, which must cover the costs for providing the Load Rejection Reserve and System Restart Ancillary Services, but does not take into account the costs for providing Dispatch Support Ancillary Services.~~
- (e) ~~the determination of the Allowable Revenue of Ancillary Service provision must take into account Ancillary Service Contracts that System Management has entered into.~~

3.11.11. By 1 June each year, System Management must submit to the IMO a report containing information on:

...

- (c) the Ancillary Service Requirements for the coming year and the Ancillary Services plan to meet those requirements; ~~and~~
- (d) ~~the budget approved in accordance with clause 2.23 for providing Ancillary Services for the coming year.~~

3.11.14 System Management must document in the Power System Operating Procedure the procedure to be followed, and must follow that documented Market Procedure, when:

...

- (b) entering into Ancillary Services Contracts, including the process for conducting competitive tender processes utilised for the awarding of Ancillary Services Contracts; ~~and~~
- (c) ~~preparing budget proposals for providing Ancillary Services.~~

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

...

- (c) Cost\_LRD, the monthly amount for Load Rejection Reserve and System Restart, determined in accordance with ~~System Management's budget~~ the process described in clause 3.13.3A; ~~2.23, and Dispatch Support service determined in accordance with clause 3.11.8B.~~
- (d) Dispatch Support service determined in accordance with clause 3.11.8B.

3.13.3. The parameters Margin\_Peak and Margin\_Off-Peak to be used in the settlement calculation described in clause 9.9.2 are:

- (a) where the Economic Regulation Authority has not completed its first assessment of ~~the efficient costs of System Management~~ in accordance with clause ~~3.13.3A2-23.3~~:

  - i. 15 % for Margin\_Peak; and
  - ii. 12% for Margin\_Off-Peak; and

- (b) determined by the Economic Regulation Authority, where the Economic Regulation Authority has completed its first assessment of ~~the efficient costs of System Management~~ in accordance with clause ~~3.13.3A2-23.3~~.

3.13.3A For each Review Period, by 31 March of the year in which the Review Period commences, the Economic Regulation Authority must determine values for the parameters Margin\_Peak, Margin\_Off-Peak and Cost\_LRD in accordance with the following:

- (a) by 30 November of the year prior to the start of the Review Period, the IMO must submit a proposal for these parameters for the Review Period to the Economic Regulation Authority:
  - i. for the reserve availability payment margin applying for Peak Trading Intervals, Margin\_Peak, the IMO must take account of:
    - 1. the margin the Electricity Generation Corporation could reasonably have been expected to earn on energy sales forgone due to the supply of Spinning Reserve during Peak Trading Intervals;
    - 2. the loss in efficiency of the Electricity Generation Corporation Registered Facilities that System Management has scheduled to provide Spinning Reserve during Peak Trading Intervals that could reasonably be expected due to the scheduling of those reserves;
  - ii. for the reserve availability payment margin applying for Off-Peak Trading Intervals, Margin\_Off-Peak, the IMO must take account of:
    - 1. the margin the Electricity Generation Corporation could reasonably have been expected to earn on energy sales forgone due to the supply of Spinning Reserve during Off-Peak Trading Intervals;
    - 2. the loss in efficiency of the Electricity Generation Corporation Registered Facilities that System Management has scheduled to provide Spinning Reserve during Off-Peak Trading Intervals that could reasonably be expected due to the scheduling of those reserves;
  - iii. Cost\_LRD must cover the costs for providing the Load Rejection Reserve and System Restart Ancillary Services, but must not take into account the costs for providing Dispatch Support Ancillary Services,
- the determination of these parameters must take into account Ancillary Service Contracts that System Management has entered into;
- (b) the Economic Regulation Authority must undertake a public consultation process, which must include publishing an issues paper and issuing an invitation for public submissions.

3.22.1. The IMO must provide the following information to the Settlement System for each Trading Month:

...

(c) Margin\_Peak as described in clause ~~3.13.3A-2.23.12(d)(i)~~;

(d) Margin\_Off-Peak as described in clause ~~3.13.3A-2.23.12(d)(ii)~~;

...

(g) Cost\_LRD as described in clause 3.13.3A1(c); and

...

9.9.1 The Ancillary Service settlement amount for Market Participant p for Trading Month m is:

...

Cost\_LRD(m) is the total Load Rejection Reserve ~~and~~, System Restart, ~~but not~~ and Dispatch Support services payment costs for Trading Month m as specified by the IMO under clause 3.22.1(g).

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

The ERA considers that this rule change proposal will remove the ambiguities regarding ancillary services in relation to System Management budget review and the responsibilities for setting the payment parameters. This improves the integrity of the Market Rules and therefore is consistent with the operation of the Wholesale Market Objectives.

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

Cost: No significant costs have been identified with this Rule Change Proposal.

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