



Market Advisory Committee

Agenda

Meeting No.	32
Location:	IMO Board Room Level 3, Governor Stirling Tower, 197 St Georges Terrace, Perth
Date:	Wednesday 13 October 2010
Time:	9.00am – 12.00pm

Item	Subject	Responsible	Time
1.	WELCOME	Chair	5 min
2.	MEETING APOLOGIES / ATTENDANCE	Chair	
3.	MINUTES OF PREVIOUS MEETING	Chair	5 min
4.	ACTIONS ARISING	Chair	
5.	MARKET RULES		
	a) Market Rule Change Overview	IMO	2 min
	b) Removal of NCS procurement from the Market Rules (PRC_2010_11)	IMO	15 min
	c) Updates to CRC (PRC_2010_14)	IMO	15 min
	d) Settlement Cycle Timelines (PRC_2010_19)	IMO	15 min
	e) Providing Price related Standing Data to System Management (PRC_2010_21)	IMO	15 min
	f) Consequential Outage – relief from capacity refund and unauthorised deviation penalties (RC_2010_23)	Alinta	15 mins
	g) Capacity Credit Reduction (PRC_2010_28)	IMO	15 min

Item	Subject	Responsible	Time
	h) Limits to early entry capacity payments (PRC_2010_30)	Alinta	15 min
6.	MARKET PROCEDURES		
	a) Overview	IMO	5 min
7.	WORKING GROUPS		
	a) Overview and membership updates	IMO	2 min
	b) Renewable Energy Generation Working Group Update	IMO	5 min
	c) Maximum Reserve Capacity Price Working Group Update	IMO	5 min
	d) Rules Development Implementation Working Group Update	IMO	5 min
8.	CONCEPT/DISCUSSION PAPERS		
	a) MAC Discretionary Membership	MHC	30 min
	b) SRC Update	IMO	10 min
9.	MAC MEETING DATES 2011		
10.	GENERAL BUSINESS		
11.	NEXT MEETING: 10 November 2010		

Independent Market Operator

Market Advisory Committee

Minutes

Meeting No.	31
Location:	IMO Board Room Level 3, Governor Stirling Tower, 197 St Georges Terrace, Perth
Date:	Wednesday 8 September 2010
Time:	Commencing at 2.03 - 5.18 pm

Attendees	Class	Comment
Allan Dawson	Chair	
Troy Forward	Compulsory – IMO	
Stephen MacLean	Compulsory – Customer	
Ken Brown	Compulsory – System Management	
Andrew Everett	Compulsory – Generator	
Neil Gibbney	Compulsory – Network Operator	Proxy
Corey Dykstra	Discretionary – Customer	
Steve Gould	Discretionary – Customer	
Peter Huxtable	Discretionary – Contestable Customer Representative	
Andrew Sutherland	Discretionary – Generator	
Shane Cremin	Discretionary – Generator	
Chris Brown	Observer – ERA	
Tony Perrin	Minister's appointee/ Small Use Customers	
Apologies	Class	Comment
Peter Mattner	Compulsory – Network Operator	
Also in attendance	From	Comment
Fiona Edmonds	IMO	Presenter
Ben Williams	IMO	Presenter
Jenny Laidlaw	IMO	Minutes
John Rhodes	Synergy	Observer
Pablo Campillos	DMT Energy	Observer
Jacinda Papps	IMO	Observer
Courtney Roberts	IMO	Observer

Item	Subject	Action
1.	WELCOME The Chair opened the meeting at 2.03 pm and welcomed members to the 31st meeting of the Market Advisory Committee (MAC).	

Item	Subject	Action
2.	<p>MEETING APOLOGIES / ATTENDANCE</p> <p>An apology was received from Peter Mattner (Western Power).</p> <p>The following other attendees were noted:</p> <ul style="list-style-type: none"> • Neil Gibbney (proxy for Peter Mattner) • Ben Williams (Presenter) • Pablo Campillos (Observer) • Courtney Roberts (Observer) • Fiona Edmonds (Presenter) • John Rhodes (Observer) • Jacinda Papps (Observer) 	
3	<p>MINUTES OF PREVIOUS MEETING</p> <p>The minutes of MAC Meeting No. 30, held on 11 August 2010, were circulated prior to the meeting.</p> <p>The following amendments were agreed:</p> <p><u>Page 3: Section 3: 19 July 2010 Decision</u></p> <ul style="list-style-type: none"> • “Mr Corey Dykstra clarified that an A1/A2 decision, as outlined by Mr Kelly, was not the decision that was made by the MAC. ...Mr Dykstra agreed, considering that there may well be a <u>time when point at which</u> the MAC decides that there is no scope available under the hybrid model <u>to achieve the desired outcomes, particularly broader participation in Balancing and provision of Ancillary Services</u>. Mr Dykstra commented that if this happens <u>were to occur</u> then the MAC would <u>need to look again</u> at the options available. <p>Mr Kelly noted his understanding that no-one ...Mr Dykstra submitted <u>suggested</u> that the MAC had been put into a position where it could only really choose Pathway 1 or Pathway 2, <u>given the Oates Review process would demand some short term changes</u>. <u>Further and</u> as industry resources were insufficient to address the B/C options as well as the short term issues the MAC was left with looking at the hybrid model only. Mr Dykstra considered that the current decision did not remove the ability for industry to look at the B/C options later on.”</p> <p><u>Page 4: Section 3: 19 July 2010 Decision</u></p> <ul style="list-style-type: none"> • “Mr Dykstra noted that he was not sure how long that process was going to take. Mr Dykstra queried ... Mr Dykstra suggested that the MAC would need to <u>give take</u> time to see how the initial improvements were working <u>before continuing considering more fundamental changes to the market design</u>. Mr Sutherland ...” <p><u>Page 5: Section 3: 19 July 2010 Decision</u></p> <ul style="list-style-type: none"> • “Mr Forward noted that this was a <i>pathway</i> decision. Mr Dykstra responded ...Mr Dykstra repeated that the MAC had chosen not to 	

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	<p>accept <u>endorse any of</u> the options as put on the table <u>by the MRDT</u>. The Chair stated that his recollection was that there had been a decision for Pathway 1. Mr Dykstra disagreed, stating that the decision was to fix the problems.”</p> <p><u>Page 6: Section 3: 19 July 2010 Decision</u></p> <ul style="list-style-type: none"> “Mr Dykstra responded that if funding was available to undertake the analysis then the MAC could wait on the trigger to commence this work. The MAC would work <u>to address the issues within</u> the hybrid model, but then might decide to undertake the B/C analysis <u>at a future point</u>. Mr Cremin noted that he had raised this in Special Meeting No.3. Mr Sutherland preferred that funding for the B/C analysis was included as part of the current project.” <p><u>Page 8: Section 4a: Market Rules Design Problem Statement</u></p> <ul style="list-style-type: none"> “The Chair concluded that the first priority was a package <u>addressing Balancing issues</u>, including <u>broader participation in Balancing</u>, a clean Balancing curve, <u>and UDAP/DDAP</u>, and broader participation in Balancing. The Chair asked MAC members to review the list and assign priorities to the remaining issues.” <p><u>Page 19: Section 12: General Business</u></p> <ul style="list-style-type: none"> “Mr Cremin queried whether MAC members were aware of the Ministerial Decision <u>Direction</u> to waive the Capacity Cap Direction on Verve Energy for Muja A & B. Mr Cremin noted that the Ministerial Decision <u>Direction</u> had been tabled in Parliament on 9 July 2010. Mr Cremin queried whether any MAC members had been consulted about this decision, considering that it was a significant event for Independent Power Producers for the 3000 MW cap to be waived. The Chair offered to locate a copy of the Ministerial Decision <u>Direction</u> and circulate it to MAC members.” <p>Subject to the agreed amendments, the MAC endorsed the minutes as a true and accurate record of the meeting.</p> <p><i>Action Point: The IMO to amend the minutes of Meeting No. 30 to reflect the points raised by the MAC and publish on the website as final.</i></p>	IMO
4	<p>ACTIONS ARISING</p> <p>The actions arising were either complete or on the meeting agenda. The following exceptions were noted:</p> <p>Item 78: Mr Ken Brown noted that his team had been talking to stakeholders over the last two weeks and that he expected some results within a month, although the proposal would not be finished at that time. Some MAC members noted that they were yet to be contacted.</p> <p>The Chair noted the interconnection between this work and the work of the Rules Development Implementation Working Group (RDIWG). Mr Brown noted that he would provide a more thorough status update at the next MAC meeting.</p>	

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	<p>Item 90: Mr Tony Perrin noted that Western Power had raised concerns about whether it had the necessary powers under sections 41 and 42 of the Electricity Corporations Act to contract for a Network Control Service (NCS). Mr Perrin advised that the Office of Energy had requested a copy of the legal opinion obtained by Western Power, and was considering several options to address the issue, such as inclusion of a heads of power for NCS in the upcoming Electrical Amendments Bill. There was some discussion about whether the necessary heads of power already existed. Mr Neil Gibbney confirmed that, according to its legal advice, Western Power definitely did not have the necessary powers.</p> <p>Mr Gibbney noted that regulations would also be needed, and queried whether work on these could be started before the legislation had been passed. Mr Perrin responded that this work could be started if necessary. Mr Dykstra suggested that usually the Parliamentary Council would not start drafting regulations until the relevant legislation was approved. Mr Perrin stated that he and Mr Gibbney would discuss the matter further off-line and provide an update to the MAC at the next meeting.</p> <p>Item 92: Mr Ken Brown noted that he had not yet been able to talk to Mr Peter Mattner on this issue.</p> <p>Item 93: Mr Chris Brown confirmed that the ERA Secretariat was of the view that no additional changes to the NCS Rule Change Proposal (PRC_2010_11) were needed to support the ERA monitoring requirements, as these would be handled under the Access Code.</p> <p>Item 106: Mr Forward noted that the IMO will consider the issue of the appropriateness of early commissioning for Demand Side Programmes as part of its current review of Curtailable Loads, but could not promise to provide an outcome as part of the review due to timeline restrictions. However, the IMO will try to include a resolution to this issue if appropriate. Mr Dykstra considered that a resolution to this issue is appropriate, but noted that he understood Mr Forward's point. Mr Forward noted that he did not want this issue to delay the other proposed amendments arising from the review.</p>	
5a	<p>MARKET RULE CHANGE OVERVIEW</p> <p>Mr Andrew Sutherland requested an update on the status of RC_2010_08: Removal of DDAP uplift when less than facility minimum generation (MinGen). Mr Sutherland queried whether the Rule Change Proposal could be extended to include Capacity Cost Refunds.</p> <p>Mr Forward noted that the IMO's investigations found the benefit to the market in removing DDAP when less than MinGen totalled around \$40,000 per year, while the proposed amendments involved approximately \$70,000 in IT costs, technical advice of about \$30,000-\$40,000 plus ongoing assessment costs. Given the level of the implementation costs and the limited financial impact, the IMO had decided, with Griffin Energy's support, to extend the Rule Change Proposal for three months. If the issue has not been sufficiently progressed by the RDIWG in this timeframe then work on the Rule Change Proposal will recommence.</p> <p>Mr Cremin considered that MinGen was poorly defined currently in the Market Rules and that many generators were regularly operating below their</p>	

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	<p>nominated MinGen level. Mr Cremin confirmed that he was happy to extend the date for the IMO to prepare the Draft Rule Change Report contingent on the outcomes of the RDIWG.</p> <p>The MAC noted the overview of the Market Rule changes.</p>	
5b	<p>REQUIRED LEVEL AND RESERVE CAPACITY SECURITY [PRC_2010_11]</p> <p>The Chair noted that at the 11 August 2010 MAC meeting the IMO had agreed to present further detail on how the IMO proposed to calculate the Required Level for Intermittent Generators. The Chair asked Ms Fiona Edmonds and Mr Ben Williams to give the presentation, a copy of which is attached as Appendix 1.</p> <p>Ms Edmonds provided a brief overview, explaining the concept of a Required Level and how it would be used as a criterion for the return of Reserve Capacity Security (RCS), capacity refunds and Reserve Capacity Testing.</p> <p>Mr Stephen MacLean queried the meaning of the term “expected peak output”. Mr Williams replied that the Required Level value was based on all intervals, not just Peak Trading Intervals.</p> <p>Mr Dykstra noted the proposal to use an alternative value if the value equal to the 5 percent Probability of Exceedance (POE) of the 3-year expected peak output “is not considered appropriate by the IMO”. Mr Dykstra asked in what sort of situations the IMO envisaged that the 5 percent POE value would not be considered appropriate. Ms Edmonds and Mr Williams replied that they expected this would occur when an expert’s report provided by a Market Participant proposed an alternative approach and gave reasons why the standard approach was inappropriate for that Facility.</p> <p>Mr Dykstra recommended that the proposed amendments include a heads of power to create a Market Procedure covering this assessment process. Mr Forward noted that a Market Procedure for RCS already existed. Mr Dykstra considered that in this case the procedure should be mentioned in the proposed amendments, e.g. use “not appropriate as determined according to the Reserve Capacity Security Procedure”. Mr Cremin questioned whether it was reasonable that a report from a member of the IMO’s panel of experts, submitted by a Market Participant, should not be accepted by the IMO.</p> <p>Mr MacLean questioned the need to create a new term for “Required Level” in the Market Rules, suggesting that it might be possible to simply refer to a test level. Ms Edmonds responded that the term had been created to allow the Required Level value to be used in several places within the Market Rules. This would standardise the approach used in the assessment of Reserve Capacity throughout the Market Rules by introducing a common concept.</p> <p>Mr Dykstra considered that the proposed method for testing Intermittent Generators (based on peak output) was not quite consistent with the method used for certification (based on average output). Mr Williams responded that the certification of Intermittent Generators was based on averages, which took into account the need to operate at peak some</p>	

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	<p>percentage of the time. Mr Williams submitted that the failure of an Intermittent Generator to meet the proposed Required Level would probably indicate that its Reserve Capacity had been set too high. Mr MacLean considered that Market Participants should make sure that they can meet the three year profile presented for certification.</p> <p>Mr Dykstra suggested that the testing of Intermittent Generators could use the same statistical basis as that used for certification. Mr Dykstra noted that the certification process required the creation of a model to determine capacity. Mr Dykstra suggested that actual data could be run through the same model to assess whether the Facility is achieving its expected output. There was some discussion about the potential costs for generators of this approach.</p> <p>Mr Cremin suggested using an independent expert's report as a trigger for the return of RCS for an Intermittent Generator. The report would need to confirm that the Facility was installed and working to the specifications on which its certification was based. Mr Forward considered that there could be problems with this approach if a generator did not build its Facility exactly to the specifications provided for certification. Mr Cremin agreed that industry experts could occasionally provide unexpected results.</p> <p>Mr Dykstra considered that the IMO's proposal created a new risk for Market Participants. Currently the security for an Intermittent Generator would be returned if the Facility had been installed, but under the proposal there was a risk that a Market Participant would get nothing back.</p> <p>Mr Williams explained how the Relevant Level for an Intermittent Generator was derived from the generation duration curve proposed for the Facility. Mr Williams then presented a boundary analysis based on historical data from 2006-2009 for three existing wind farms, comparing operation in the worst available year for wind resource with Required Levels based on the best available year for wind resource. Mr Williams noted even under this worst case scenario all the generators met their Required Levels at least 116 times and 90 percent of their Required Levels at least 930 times.</p> <p>The Chair queried what would happen if there was an extremely bad year and an Intermittent Generator did not reach 90 percent of its Required Level. Mr Williams replied that in this case the Market Participant would lose their security. The Chair questioned whether the risk being discussed was simply that the wind did not blow. Mr Cremin replied that the problem could also arise through bad luck, for example if the generator did not happen to have all its turbines running on the windiest days.</p> <p>Mr Cremin and Mr Dykstra both expressed concern that there was still risk of the security not being returned, agreeing that this would be a disincentive for potential investors. Mr Forward noted that this was also a risk for a Scheduled Generator. Mr Dykstra responded that a participant had more control over the performance of a Scheduled Generator than an Intermittent Generator. There was some further discussion about the costs and benefits of the alternative approaches suggested by Mr Dykstra and Mr Cremin.</p> <p>The Chair suggested that the proposed amendments could allow for an independent expert's report that confirmed that the Facility was installed and working to the specifications on which its certification was based, provided</p>	

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	<p>at the end of the Capacity Year, to ensure the return of the security. Mr Forward queried whether the Market Customer representatives in the MAC were happy with this approach. Mr MacLean considered that Market Customers would be no better or worse off under the proposal. Dr Steve Gould suggested that this was not a substantial issue considering that the probability of an SRC situation arising from a wind farm failure was remote. Mr MacLean agreed with Dr Gould's suggestion.</p> <p>The Chair noted that Market Customers bear the risk of any non-delivery of capacity, and so if they were happy with the risk then an independent expert's report could be used. Mr Forward queried whether the report was to be provided as soon as the Facility was installed. Mr Dykstra suggested that a participant might seek a report about a month before the end of the Capacity Year, if it had not already satisfied the Relevant Level criteria. Mr Forward questioned why the report should not be provided up front if it was to be used as a backstop. Mr Peter Huxtable noted that just because a Facility was installed did not mean that it was working. Mr Cremin responded that the IMO should have a good idea of whether a new Facility was operating as expected.</p> <p>The Chair noted the concerns of MAC members that uncertainty about the return of RCS for an Intermittent Generator posed a risk to investment funding. The Chair agreed with Dr Gould that the risk of an installed Intermittent Generator failing and causing an SRC event is low. The Chair asked if the MAC was agreeable to the proposed amendments, if they were modified to include the use of an independent expert's report as a criterion for the return of RCS for an Intermittent Generator (in addition to the Required Level). The MAC endorsed this proposal.</p> <p>Mr MacLean advised that he would email the IMO details of some other minor issues concerning the proposed amendments.</p> <p><i>Action Point: Synergy to send details of its additional minor issues with the Reserve Capacity Security Rule Change Proposal (PRC_2010_12) to the IMO.</i></p> <p><i>Action Point: The IMO to update its Reserve Capacity Security Rule Change Proposal (PRC_2010_12) to reflect the minor issues raised by Synergy.</i></p> <p><i>Action Point: The IMO to update its Reserve Capacity Security Rule Change Proposal (PRC_2010_12) to allow for the return of security for an Intermittent Generator at the end of a Capacity Year on provision of a report from an IMO accredited expert.</i></p> <p><i>Action Point: The IMO to formally submit its updated Reserve Capacity Security Rule Change Proposal RC_2010_12.</i></p>	<p>Synergy</p> <p>IMO</p> <p>IMO</p> <p>IMO</p>
5c	<p>CERTIFICATION OF RESERVE CAPACITY [PRC_2010_14]</p> <p>The Chair asked Mr Forward to present the Pre Rule Change Discussion Paper: Certification of Reserve Capacity (PRC_2010_14).</p> <p>Mr Forward noted that the paper covered potential improvements identified during this year's certification process. Mr Forward proposed to step through the issues seeking comments from MAC members.</p>	

Item	Subject	Action
	<p><i>Issue 1: Reserve Capacity Mechanism timeline</i></p> <p>Mr Forward noted that the Statement of Opportunities (SOO) is published on 1 July, while the window for applications for Reserve Capacity opens on 1 May and closes on 20 July. The majority of applications are submitted in the last few days of this period, creating a rush of applications to be processed by the deadline for confirming Certified Reserve Capacity (CRC) on the last business day on or before 5 August.</p> <p>Mr Forward noted that the IMO has only three weeks to assess the applications each year (most recently 105 applications). The IMO considers that three weeks is too short a period to assess this number of applications and is proposing that the period be extended to eight weeks. Mr Forward suggested that the SOO would have little impact on applications, as new generators would be unlikely to start considering an application at this time, particularly given the time needed to gain access approval from Western Power. Mr Forward noted that the IMO proposes to align the end of the application window with the publication of the SOO (1 July), adding that a Market Participant would still retain the ability to withdraw its application later.</p> <p>Mr Dykstra queried the mix of Facility types making up the 105 applications. Mr Forward replied that typically about 50 percent of the applications require significant review, with the existing Facilities often proposing upgrades, fuel changes, etc. Mr MacLean considered that, looking at the graphs in the paper, it did not appear that the workload has increased year on year. The Chair and Mr Forward confirmed that the workload has definitely increased.</p> <p>Mr MacLean queried whether the eight weeks represented an ambit claim by the IMO. Mr Forward replied that the IMO would like to undertake additional due diligence on all applications, and was conscious that a number of factors could become invalid over time, for example Access Contracts, fuel contracts, environmental approvals, etc. The IMO wished to be able to examine applications for existing Facilities in more detail. Mr MacLean questioned whether the IMO needed eight weeks to do this properly.</p> <p>Mr Dykstra considered that the MAC has no visibility of what has happened to indicate risks associated with the current approval period. The Chair replied that in essence the review process effectively conducts due diligence over a \$1 Billion market. The IMO needs more time to undertake the level of assessment it considers appropriate. The Chair expressed his interest in the MAC's views on the interaction of the SOO process and applications, noting that a great deal of effort went into the production of the SOO. The Chair noted that he had thought the SOO critical to the applications process, but had been convinced otherwise by Mr Forward.</p> <p>Mr Andrew Everett queried what difference would be expected between a five week assessment period and an eight week assessment period. Mr Dykstra considered that if there was more work that needed to be done then this could be achieved in two ways, either through the application of more resources or the extension of the assessment period. Mr Forward noted that there were invariably delays in the assessment process that were difficult to compress, even with additional resources. For example, it was often necessary to go back to Market Participants with requests for corrections or</p>	

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	<p>additional information. The Chair noted that Market Participants could also find themselves rushed by the current process, questioning whether they could be assisted by the extended assessment period.</p> <p>Dr Gould suggested that the IMO could require applications for existing Facilities to be submitted earlier, to reduce the rush of applications towards the end of the application window. Mr Ken Brown queried whether there were many problems with the applications for existing Facilities. Mr Cremin observed that the IMO had appeared to require more information this year. Mr Cremin noted that he expected the IMO was using its time wisely, for example noting when existing Facilities really needed review.</p> <p>Mr Dykstra noted that IMO staff had made themselves available to Market Participants to discuss and provide assistance with applications, and queried whether this appeared to have helped with the quality of the applications received. The Chair and Mr Forward agreed that where Market Participants had taken up the opportunities for assistance offered by the IMO (including training) this had improved the quality of applications significantly.</p> <p>Mr Forward asked MAC members if there was any objection to extending the assessment period as proposed. Mr Dykstra responded that it seemed a bit odd to align the window closure with the publication of the SOO, as some Market Participants may use the SOO to help make a final decision about an application, particularly for new Facilities. Mr Dykstra noted that he would prefer a “reasonable period” between the publication of the SOO and the closure of the application window. With regards to the length of the assessment period, Mr Dykstra considered that where the IMO sought an extension he would expect to ask why, that is what has gone wrong to make the extension appear necessary.</p> <p>Mr Everett considered that from his view if the IMO said it needed eight weeks then he will accept its advice. Mr Cremin suggested that publishing the SOO first may result in some applications not being submitted, reducing the IMO’s workload. Mr Cremin expressed some sympathy with the IMO’s proposal for a longer assessment period.</p> <p>The Chair suggested that the IMO look at the option of publishing the SOO earlier in the Reserve Capacity timeline. There was some discussion about the usage of the SOO and the optimum time for its publication. The Chair advised that the IMO will ask customers what value they get from the SOO and for their thoughts on the timing of its publication in the certification process.</p> <p><i>Action Point: The IMO to consult with industry members about the value they obtain from the Statement of Opportunities (SOO) and their preferences with regards to content and timing.</i></p> <p>Mr Huxtable noted that Energy Response had raised an issue with him concerning the timing for provision of RCS for capacity to be traded bilaterally. Energy Response had suggested that 10 Business Days was a more appropriate timeframe for this purpose. Mr Williams replied that this would leave very little time to determine whether a Reserve Capacity Auction was needed and to declare one if necessary. The MAC agreed that 10 Business Days was appropriate.</p>	IMO

Item	Subject	Action
	<p><i>Action Point: The IMO to amend the timing for provision of RCS for capacity to be traded bilaterally to 10 Business Days.</i></p> <p>Issue 2: Requirement for valid application to be submitted for Certified Reserve Capacity</p> <p>Mr Dykstra questioned what was meant by the term “valid application”. Mr Williams replied that at present the IMO could grant CRC for a Facility even if no application was received at all. The purpose of the proposed amendments was to ensure that an application must be submitted for CRC to be granted. Mr Dykstra suggested that the IMO check the use of word “valid” with its legal section, noting that the word has a legal definition that may not align with the IMO’s intention. Mr Dykstra suggested that “complete” might be used instead of “valid”.</p> <p><i>Action Point: The IMO to review the use of the term “valid” in the CRC Pre Rule Change Proposal.</i></p> <p>Issue 3: Clarification of Required Availability</p> <p>Mr Cremin queried whether, given its repeated usage, it would be worth creating a defined term for “Peak Trading Intervals on Business Days” in the Market Rules.</p> <p>Mr Ken Brown queried whether Market Participants had an issue with the current 14 hour per day availability requirement. Mr Williams responded that the current availability requirement imposed a burden on Market Participants in terms of the maximum fuel requirements for which they needed to contract. Mr Brown considered that if the requirement is restricted to Business Days then the first problem is what happens on weekends, citing the Varanus Island crisis as an example of these problems arising. Mr Cremin noted that his point only related to the definition of the term in the Market Rules.</p> <p>Mr Brown questioned whether the clause as provided was going to assist Market Participants. The Chair asked whether Market Participants paid for refuelling requirements. Mr Dykstra confirmed that this was the case. Mr Brown queried whether the proposal meant that a Facility might not be ready to operate on a Monday morning. Mr Dykstra considered that at present there is a disincentive to register as a dual fuel Facility. Mr Brown agreed that there is a need to incentivise dual fuel capability.</p> <p>Issue 4: Transmission access requirements</p> <p>Mr Cremin noted the IMO’s proposal to replace the phrase “Access Offer” with “Access Proposal” in the Market Rules. Mr Cremin queried the level of certainty being sought by the IMO with regard to network access. Mr Forward noted that the Market Rules were designed before the Access Code was finalised, and that usually an “Access Offer” was made just prior to the finalisation of the Electricity Transfer Access Contract (ETAC).</p> <p>Mr Forward asked MAC members what they considered the minimum level of certainty should be, submitting that if the access needed to be “watertight” then the term “Access Offer” should probably be retained. Mr Cremin noted that even an Access Offer can be subject to conditions. The Chair noted that the Market Rules were based on an applicant having an unconditional Access Offer from Western Power, but increasingly this was not the case.</p>	<p>IMO</p> <p>IMO</p>

Item	Subject	Action
	<p>The Chair considered that if unconditional access was required then almost no applications would be successful.</p> <p>There was some discussion about the use of “run back schemes” in the SWIS, and how these would be assessed by the IMO. Mr Ken Brown confirmed that there were already about three of these schemes in place but that none had been assessed by the IMO to date as they had all been established prior to market commencement.</p> <p><i>Action Point: The IMO to modify its Certification of Reserve Capacity Rule Change Proposal (PRC_2010_14) to reflect the outcomes of its consultation with industry on the SOO and the other matters raised by the MAC, and present the updated proposal to the MAC.</i></p>	IMO
5d	<p>MARKET FEES [PRC_2010_20]</p> <p>The Chair asked Ms Edmonds to present the Pre Rule Change Discussion Paper: Market Fees (PRC_2010_20), noting this paper was also being presented to the MAC for the first time.</p> <p>Ms Edmonds noted that the IMO depends on inputs from various sources to determine the Market Fee rates to be charged to Market Participants. Ms Edmonds noted that the paper covers what should happen if the IMO does not receive the necessary inputs in time to meet the 30 June deadline specified for the determination and publication of Market Fee rates in the Market Rules.</p> <p>Ms Edmonds asked MAC members to email any questions or comments they had regarding the paper. The Chair noted that the IMO may look to provide some pre-approval advice of expected fee rates.</p> <p><i>Action Point: MAC members to send the IMO any feedback on its Market Fees Rule Change Proposal (PRC_2010_20).</i></p> <p><i>Action Point: The IMO to update its Market Fees Rule Change Proposal (PRC_2010_20) to reflect the amendments suggested by the MAC and then formally submit the Rule Change Proposal.</i></p>	<p>Members</p> <p>IMO</p>
6a	<p>MARKET PROCEDURE CHANGE OVERVIEW</p> <p>The MAC noted the overview of recent and upcoming procedure changes.</p>	
7a	<p>WORKING GROUP OVERVIEW</p> <p>The MAC noted the Working Group overview.</p>	
7b	<p>MRCPWG UPDATE</p> <p>Mr Huxtable noted a minor error in the Maximum Reserve Capacity Price Working Group (MRCPWG) update, namely a reference to Landgate as the appropriate party to determine shallow connection costs. Mr Forward agreed that this reference should be to Western Power.</p> <p>Mr Forward noted a potential issue with the MRCP calculation methodology, which is based on the assumption that capacity is successfully scheduled through a Reserve Capacity Auction and receives a 10 year Special Price</p>	

Item	Subject	Action
	<p>Arrangement. On one hand, it is questionable whether this assumption should be used given that in practice Reserve Capacity Auctions are not held. On the other hand there appears to be no shortage of capacity, so the priority of this issue does not appear to be high.</p> <p>Mr Dykstra considered that while Mr Forward had raised the issue in the MRCPWG, it had not been of significant concern to other members. Mr Dykstra noted that the MRCPWG had agreed that Mr Forward raise the issue with the MAC.</p> <p>The Chair queried whether this issue required further discussion by the MAC. Mr Forward suggested that the issue be added to the list of issues to be considered by the future review of the Reserve Capacity Mechanism. The Chair noted that he was conscious of the increasing capacity price and again questioned whether the issue was worth more discussion by the MAC. Mr Dykstra responded that any change to the process was likely to increase rather than decrease the MRCP.</p> <p>Mr Cremin queried whether MRCPWG members had obtained an estimate of the size of the impact. There was some discussion about the factors that would need to be considered to assess the impact of the assumption. The Chair questioned whether the MRCPWG should undertake this assessment as part of its review of the procedure. Mr Cremin suggested that this may not be appropriate given the existing deadlines for the MRCPWG. Mr Dykstra added that he was not convinced that there would be a reasonable impact. The IMO agreed to undertake some modelling to estimate the impact of the assumption, and report back to the MAC with its findings.</p> <p>The MAC noted the MRCPWG update.</p> <p><i>Action Point: The IMO to undertake modelling to assess the impact of the WACC assumption of a Reserve Capacity Auction on the Maximum Reserve Capacity Price, and present its findings to the MAC.</i></p>	IMO
7c	<p>RDIWG UPDATE</p> <p>The Chair noted that the RDIWG has commenced work, meeting on 27 August 2010 and 7 September 2010. The has group agreed to work on a number of issues in parallel, and has held initial discussions on:</p> <ul style="list-style-type: none"> • competitive Balancing options; • realignment of the Scheduling Day timelines with gas nomination and weather forecast timelines; and • Reserve Capacity refunds. <p>A number of action items were identified during these discussions, for action by the project team and RDIWG members. The Chair considered that the RDIWG was making good progress, and looked forward to reporting some of the resulting rule changes in future MAC meetings.</p> <p>The MAC noted the overview of RDIWG progress.</p>	
8a	<p>CURTAILABLE LOADS PROJECT UPDATE</p> <p>Mr Forward noted that the IMO was seeking the MAC's endorsement for the proposed solutions summarised in the Curtailable Loads Project Update</p>	

Item	Subject	Action
	<p>paper. Mr Forward asked Mr Williams to lead the discussion of the issues contained in the paper.</p> <p>Mr Williams noted that Issue 1 (registration of Curtailable Loads) and Issue 2 (Facility definition) were closely linked. Mr Williams submitted that System Management would prefer to dispatch a Demand Side Programme (DSP) as a single Facility, rather than needing to dispatch the individual loads comprising the DSP.</p> <p>The Chair considered that it would not be appropriate to dispatch each Curtailable Load individually and asked MAC members whether they agreed with this view. Mr Dykstra considered that eventually this was a decision for the Demand Side Management (DSM) Provider, and that some DSM Providers may choose not to change their current practice of treating Curtailable Loads individually. Mr Forward agreed that this practice would be allowed, but noted that System Management might object if in future it had a large number of Curtailable Loads to be dispatched individually.</p> <p>Mr Dykstra suggested that if a DSM Provider wanted to register for Reserve Capacity but not be dispatched, it might choose to register many small, individual loads to make the dispatch of these loads less attractive. Mr Forward noted that the IMO had discussed using blocks of DSM dispatch with System Management. This option is not currently part of the IMO's proposal, but the IMO may consider it in future if necessary. The Chair suggested that an action item be created for the IMO to re-examine the issue in six months' time.</p> <p><i>Action Point: The IMO, in March 2011, to review with System Management whether there is an issue with the registration and dispatch of a large number of small Demand Side Programmes, and report back to the MAC.</i></p> <p>Mr Williams noted that a Curtailable Load can be registered to a DSM Provider that is not the energy retailer for that load. Mr Williams submitted that while there is no problem with the actual registration of the load, the rest of the Market Rules do not deal with this situation. Mr Williams noted the IMO's proposed solution is to remove the concept of a Curtailable Load as a Registered Facility from the Market Rules and replace it with the concept of the DSP being the Registered Facility. The DSP will then have its component loads associated with it for the purposes of capacity obligations and dispatch. Mr Pablo Campillos suggested that in effect there was a need for a Capacity NMI and an energy NMI.</p> <p>The Chair asked if MAC members had any comments on the proposed solutions for issues 1 and 2. Mr Dykstra responded that had not yet received comments from within Alinta and he will come back to the MAC at a later date.</p> <p><i>Action Point: Mr Dykstra to provide comments on the Curtailable Loads paper.</i></p> <p>Mr Williams noted that the IMO's proposed solution for issue 3 (measurement of Curtailable Loads) was largely covered off in the August 2010 MAC meeting, which endorsed the IMO's recommendations for the measurement and calculation of Relevant Demand. Mr Williams noted that since the concept of a Curtailable Load was being removed, Relevant</p>	<p>IMO</p> <p>Mr Dykstra</p>

Item	Subject	Action
	<p>Demand will be measured for a DSP as a whole.</p> <p>Mr Sutherland queried what would happen if some of the loads comprising a DSP reduced load during a dispatch event while other loads in the same DSP actually increased load. Mr Ken Brown responded that the overall reduction of all the loads in the DSP would be considered, and that DSM Providers will need to manage their portfolios accordingly. Mr Sutherland queried why, if DSM Providers were able to aggregate across their loads, generators were not also able to aggregate across their Facilities.</p> <p>Mr Sutherland reminded the MAC of the potential double dipping issue he raised in the August 2010 MAC meeting, regarding Dispatch Instruction and energy payments for Curtailable Loads. Mr MacLean noted that he had also raised the issue with the IMO, in an email relating to dispatch payments for Network Control Services provided through DSM. There was some discussion about whether pay as bid Dispatch Instruction payments for DSPs are warranted, given that no additional energy is being generated.</p> <p>The Chair suggested that the IMO prepare a worked example comparing the costs of a peaker generator against the DSM option. In response to a query from Mr Campillos, Mr Forward clarified that the example would give a high level comparison of the overall costs to the market of each option.</p> <p><i>Action Point: The IMO to present to the MAC a worked example comparing the payments associated with the dispatch of a peaker against those associated with the dispatch of a Demand Side Programme.</i></p>	IMO
9	<p>GENERAL BUSINESS</p> <p>There was no general business raised.</p>	
10	<p>NEXT MEETING</p> <p>Meeting No. 32 will be held on Wednesday 13 October 2010 (2:00-5:00pm).</p>	
CLOSED: The Chair declared the meeting closed at 5:18pm.		

Required Level and Reserve Capacity Security (PRC_2010_12)

Required Level

- Criterion for return of RCS, capacity refunds and Reserve Capacity Testing
- Consistent treatment of all generation types, but at same time accounts for unique characteristics of each generation type (particularly Intermittent Generators)
- Calculated for each Facility type by the IMO as follows:
 - Facilities assigned CRC under clause 4.11.1(a), using Metered Schedule and Temperature Dependence Curves submitted to IMO (clause 4.10.1(e)) and converted to sent out basis at 41°C.
 - Facilities assigned CRC under clause 4.11.2(b), using either:
 - A value which equals the 5 % POE of the 3-year expected peak output for the Facility, expressed in MW, provided to the IMO under clause 4.10.3; or
 - In the case where the value which equals the 5 % POE is not considered appropriate by the IMO, an alternative value, expressed in MW.
 - Curtailable Loads and DSM Programmes, using the Facility's Relevant Demand minus CC's assigned to that Facility.

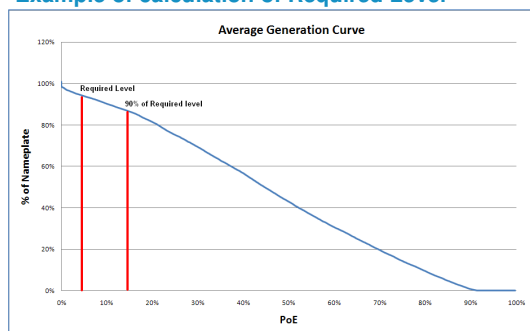
Facilities assigned CRC under clause 4.11.2(b)

- Mainly Intermittent Generators
- The IMO sought the advice of its panel of experts on:
 - how to set the Required Level for these facilities; and
 - the appropriate number of Trading Intervals that it should meet its Required Level.
- The IMO also meet with key stakeholders to discuss how to establish an appropriate Required Level for these facilities.
- Panel of experts consider that using the 5% POE for the 3 year expected peak output will accurately represent the maximum output that a Facility should be able to achieve in at least two Trading Intervals over the year.
- In the case where an independent expert does not consider that this value is appropriate for a Facility an alternative value can be proposed for the IMO's consideration.

Basis of the Required Level

- Allows for return of RCS for commissioned Intermittent Facilities and for RCS to be kept as compensation to the market for non-commissioned or partially commissioned Facility's.
- The same data will be used in the calculation of the Required Level as is used to calculate CCs for a Facility.
- This means that an Intermittent Generator will receive its security back if the Facility operates at a level similar to that used to estimate the CCs.

Example of calculation of Required Level



Potential Impacts on current Intermittent Generators

Boundary Analysis (Worst Case Scenario)

Wind Farm	Highest Potential Required Level to date (5% PoE)	Number of Trading Intervals > Required Level	90% Required Level	Number of Trading Intervals > 90% Required Level
A	100% of nameplate (range 90-100)	170 (avg = 733)	90% of nameplate	960 (avg = 1500)
B	93% of nameplate (range 90-94)	182 (avg = 730)	84% of nameplate	1720 (avg = 2500)
C	90% of nameplate (range 88-90)	116 (avg = 500)	81% of nameplate	930 (avg = 1800)

Note: Worst Case Scenario assumes operation during the worst year for wind resource to date with Required Level based on best wind resource to date. The above have been estimated using data from 2006-2009



Agenda item 4: 2009/2010 MAC Action Points

Legend:

Shaded	Shaded action points are actions that have been completed since the last MAC meeting.
Unshaded	Unshaded action points are still being progressed.
Missing	Action items missing in sequence have been completed from previous meetings and subsequently removed from log.

#	Action	Responsibility	Meeting arising	Status/Progress
62	The IMO to send a letter to the Office of Energy and the ERA on behalf of the MAC requesting the introduction of licensing obligations for DSM Providers.	IMO	May	Letter drafted. Awaiting the Pre-Rule Change Discussion Paper for Curtailable Loads. See the Curtailable Loads Project update paper on today's agenda.
63	The IMO to proceed with a Rule Change Proposal to allow a Market Participant other than a Market Customer to contract for the Reserve Capacity associated with a Curtailable Load.	IMO	May	A pre rule change discussion paper is on today's meeting agenda.
65	The IMO to investigate and report to the MAC on options for the selection of Discretionary Members of the MAC.	IMO	May	Completed. A report is on today's meeting agenda.
78	System Management to further develop the details of option 3 for the future procurement of Spinning Reserve and Load Following and then provide an update to the MAC.	SM	June	

#	Action	Responsibility	Meeting arising	Status/Progress
88	The Office of Energy to provide the IMO with a copy of its report on gas contingency service options for distribution to MAC members.	OoE	August	The IMO has requested this and will circulate it once received.
89	The IMO to distribute the report provided by the Office of Energy on gas contingency service options (action point 88) to MAC members.	IMO	August	See above.
90	The Office of Energy and Western Power to discuss the concerns relating to the future provision of Network Control Services and provide an update to the MAC at the September 2010 meeting.	OoE and WP	August	See paper on today's agenda (agenda item 5b).
91	The IMO to investigate potential settlement issues relating to NCS provision by generators supplying an Intermittent Load and lacking independent metering, and report back to the MAC with its findings.	IMO	August	Completed. Paper on today's agenda (agenda item 5b).
92	Western Power and System Management to discuss the provision of NCS payment terms to System Management and advise the IMO whether the NCS Rule Change Proposal (PRC_2010_11) should be updated to remove the exclusion in proposed clause 5.3A.3.	WP and SM	August	Completed. Paper on today's agenda (agenda item 5b).
94	The IMO to update the NCS Rule Change Proposal (PRC_2010_11) to reflect the advice received from the OoE, Western Power and the ERA (action points 88, 90 and 91), and present the updated paper to the MAC.	IMO	August	Completed. Paper on today's agenda (agenda item 5b).
99	The IMO to investigate the potential Civil Penalty issue faced by a Market Participant whose bank's Acceptable Credit Criteria status changes, as part of its work on the Reserve Capacity Security Rule Change Proposal (PRC_2010_12).	IMO	August	<p>Completed Regulations 31(2) of the Electricity Industry (Wholesale Electricity Market) Regulations 2004 notes that daily Civil Penalty amounts apply if the contravention continues after:</p> <ul style="list-style-type: none"> • The day the contravention was to be rectified (if specified in a warning notice); or • The day in which the participant is given a warning notice.

#	Action	Responsibility	Meeting arising	Status/Progress
100	The IMO to confirm that the Reserve Capacity Security Rule Change Proposal (PRC_2010_12) covers the mechanism for changes to the amount of Reserve Capacity Security required when these amounts are in the form of non-cash deposits.	IMO	August	The IMO has drafted the proposed Amending Rules to cover the mechanism for changes to security held as a non-cash deposit. The IMO has sought an external legal review to confirm the proposed Amending Rules operate as anticipated prior to submission of the proposal into the formal process.
102	The IMO to investigate the potential double dipping issue regarding Dispatch Instruction and energy payments for Curtailable Loads raised by Andrew Sutherland.	IMO	August	Investigation underway.
103	The IMO to develop a Pre Rule Change Discussion Paper to reflect the recommendations contained in the (Curtailable Load) Relevant Demand Analysis paper.	IMO	August	A pre rule change discussion paper will be on November's meeting agenda.
106	The IMO to consider the appropriateness of early commissioning for DSM Programmes as part of its current review of Curtailable Loads.	IMO	August	A paper on today's agenda (agenda item 5h).
107	The IMO to amend the minutes of Meeting No. 30 to reflect the points raised by the MAC and publish on the website as final.	IMO	September	Completed.
108	Synergy to send details of its additional minor issues with the Reserve Capacity Security Rule Change Proposal (PRC_2010_12) to the IMO.	Synergy	September	Completed.
109	The IMO to update its Reserve Capacity Security Rule Change Proposal (PRC_2010_12) to reflect the minor issues raised by Synergy.	IMO	September	Completed.
110	The IMO to update its Reserve Capacity Security Rule Change Proposal (PRC_2010_12) to allow for the return of security for an Intermittent Generator at the end of the Capacity Year on provision of a report from an IMO accredited expert.	IMO	September	Completed.

#	Action	Responsibility	Meeting arising	Status/Progress
111	The IMO to formally submit its updated Reserve Capacity Security Rule Change Proposal RC_2010_12.	IMO	September	Awaiting external legal review (see action point 100).
112	The IMO to consult with industry members about the value they obtain from the Statement of Opportunities (SOO) and their preferences with regards to content and timing (for PRC_2010_14).	IMO	September	Completed, updated paper on today's agenda (agenda item 5c).
113	The IMO to amend the timing for provision of RCS for capacity to be traded bilaterally to 10 Business Days (PRC_2010_14).	IMO	September	Completed, updated paper on today's agenda (agenda item 5c).
114	The IMO to review the use of the term "valid" in the CRC Pre Rule Change Proposal (PRC_2010_14).	IMO	September	Completed, updated paper on today's agenda (agenda item 5c).
115	The IMO to modify its Certification of Reserve Capacity Rule Change Proposal (PRC_2010_14) to reflect the outcomes of its consultation with industry on the SOO and the other matters raised by the MAC, and present the updated proposal to the MAC.	IMO	September	Completed, updated paper on today's agenda (agenda item 5c).
116	MAC members to send the IMO any feedback on its Market Fees Rule Change Proposal (PRC_2010_20).	Members	September	Complete.
117	The IMO to update its Market Fees Rule Change Proposal (PRC_2010_20) to reflect the amendments suggested by the MAC and then formally submit the Rule Change Proposal.	IMO	September	
118	The IMO to undertake modelling to assess the impact of the WACC assumption of a Reserve Capacity Auction on the Maximum Reserve Capacity Price, and present its findings to the MAC.	IMO	September	Completed. Outlined in the MRCPWG paper on today's agenda.
119	The IMO, in March 2011, to review with System Management whether there is an issue with the registration and dispatch of a large number of small Demand Side Programmes, and report back to the MAC.	IMO	September	
120	Mr Dykstra to provide comments on the Curtailable Loads paper.	IMO	September	Completed.

#	Action	Responsibility	Meeting arising	Status/Progress
121	The IMO to present to the MAC a worked example comparing the payments associated with the dispatch of a peaker against those associated with the dispatch of a Demand Side Programme.	IMO	September	



Agenda Item 5a: Overview of Market Rule Changes

Below is a summary of the status of Market Rule Changes that are either currently being progressed by the IMO or have been registered by the IMO as potential Rule Changes to be progressed in the future.

Rule changes: Formally submitted (see appendix 1)	1 October 2010
Fast track with Consultation Period open	1
Standard Rule Changes with 1st Submission Period Open	1
Fast Track Rule Changes with Consultation Period Closed (final report being prepared)	0
Standard Rule Changes with 1st Submission Period Closed (draft report being prepared)	2
Standard Rule Changes with 2nd Submission Period Open	0
Standard Rule Changes with 2nd Submission Period Closed (final report being prepared)	1
Rule Changes - Awaiting Minister's Approval and/or Commencement	4
Total Rule Changes Currently in Progress	9

Potential changes logged by the IMO- Not yet formally submitted	August	September
High Priority (to be formally submitted in the next 3/6 months)	0	0
Medium Priority (may be submitted in the next 6/12 months)	22	21 (+3/-4)
Low Priority (may be submitted in the next 12/18 months)	27	24 (-3)
Potential Rule Changes (H, M and L)	49	45
Minor and typographical (submitted in batches three times per year)	9	15 (+6)
Total Potential Rule Changes	58	67

The changes in the rule change and issues log (from August to September) has arisen from:

Priority	Issue	Status
High	N/a	N/a
Medium	<p>In:</p> <ul style="list-style-type: none"> Reserve Capacity Testing: <ul style="list-style-type: none"> A Market Participant can request a third test "once during the remaining Reserve Capacity Cycle". This is unclear. The IMO considers that Market Participants should be allowed to request once in the remainder of the 6-month testing cycle or once for the remainder of the Capacity Year. A new Facility can come online and begin receiving Reserve Capacity payments between 1 August and 30 November (until 2011) or 1 June and 1 October (2012 onwards). The Reserve Capacity Testing provisions require that all generation facilities with obligations to be tested between 1 April to 30 September. Therefore the Market Rules currently require a new Facility that comes online in late September to be tested almost immediately. The IMO considers that this is impractical and an allowance could be made, such as a minimum period that a Facility is online during that period, before being required to be tested. SRC: An assessment of whether SRC is required can currently only be based on the values determined in clause 4.5.9 of the Market Rules, which is prepared 2 years in advance of when an SRC event may occur. Currently the Market Rules do not allow for updated forecasts to be taken into account. <p>Out:</p> <ul style="list-style-type: none"> Curtaileable Loads: <ul style="list-style-type: none"> Discrepancy between registration and Verification Testing for Curtaileable Loads; Issue around refunds from providers of DSM programmes who do not sign up enough curtaileable loads to fulfil their RC obligations. Reduction of Capacity Credits for a new Facility which is expected to be unable to deliver its entire capacity to the market for the entire reserve capacity year. 	<ul style="list-style-type: none"> On the Rule Change and Issue Log. On the Rule Change and Issue Log. Contained in PRC_2010_29, for November's MAC meeting agenda. Contained in PRC_2010_28 on today's MAC meeting agenda.

Priority	Issue	Status
	<ul style="list-style-type: none"> Timing issue with publishing the Market Fee rate, if the IMO does not get all the input data on time. 	<ul style="list-style-type: none"> Contained in PRC_2010_20, on September's MAC meeting agenda. Due to be formally submitted.
Low	<p>Out:</p> <ul style="list-style-type: none"> Providing Price Related Standing Data to System Management. Curtailable loads: ambiguity in drafting of clause 4.8.3. In order to grant Certified Reserve Capacity to a Facility, the IMO reviews the arrangements for the Facility to gain transmission access. The Market Rules refer to an "Access Offer", which is inconsistent with the Access Proposals issued by Western Power. The Access Offer is rarely issued sufficiently in advance to be able to reviewed at the time when a Facility is first certified. 	<ul style="list-style-type: none"> Contained in PRC_2010_21, on today's MAC meeting agenda. Contained in PRC_2010_29, on today's MAC meeting agenda. Contained in PRC_2010_14, on today's MAC meeting agenda.

APPENDIX 1: FORMALLY SUBMITTED RULE CHANGES

Fast Track Rule Change with Consultation Period Open

ID	Date submitted	Title	Submitter	Next Step	Date
RC 2010_26	26/09/2010	Minor, Typographical and Manifest Errors	IMO	Submission period ends	12/10/2010

Standard Rule Change with First Submission Period Open

ID	Date submitted	Title	Submitter	Next Step	Date
RC 2010_23	03/08/2010	Consequential Outage – Relief from capacity refund and unauthorised deviation penalties	Alinta	Submission period ends	14/10/2010

Standard Rule Change with First Submission Period Closed

ID	Date submitted	Title	Submitter	Next Step	Date
RC 2010_08	15/04/2010	Removal of DDAP uplift when less than facility minimum generation	Griffin Energy	Publish Draft Change Report	Rule 17/12/2010
RC 2010_24	03/08/2010	Adjustment of Relevant Level for Intermittent Generation Capacity	Alinta	Publish Draft Change Report	Rule 18/10/2010

Standard Rule Change with Second Submission Period Closed

ID	Date submitted	Title	Submitter	Next Step	Date
RC 2010_06	27/04/2010	Application of Spinning Reserve to Aggregated Facilities	Griffin Energy	Publish Final Change Report	Rule 08/10/2010

Standard Rule Change Awaiting Ministerial Approval

ID	Date submitted	Title	Submitter	Next Step	Date
RC 2010_15	18/05/2010	MAC Membership Review	Perth Energy	Awaiting Approval	Ministerial 26/10/2010

Standard Rule Change with Final Report Published

ID	Date submitted	Title	Submitter	Next Step	Date
RC 2009_08	21/04/2009	Updates to Commissioning Provisions	IMO	Commencement	01/01/2011
RC 2009_22	15/10/2009	The use of tolerance levels by System Management	System Management	Commencement	01/11/2010
RC 2009_37	14/05/2010	Equipment Tests	System Management	Commencement	01/02/2011

Agenda Item 5b: Removal of NCS Procurement from the Market Rules (PRC_2010_11)

1. BACKGROUND

At the August 2010 Market Advisory Committee (MAC) meeting, the IMO presented the Pre Rule Change Discussion Paper: Removal of NCS procurement from the Market Rules (PRC_2010_11). The paper proposed to amend the Wholesale Electricity Market Rules (Market Rules) to:

- remove the requirement to conduct a Network Control Service (NCS) expression of interest and tender process from the Market Rules; and
- facilitate the operation of an NCS (i.e. dispatch and settlement of energy) within the broader market processes.

During the presentation a number of action points were raised. The IMO has updated the Pre Rule Change Discussion paper to reflect the resolution of these action points and an additional issue raised by System Management. The updated paper is attached for review and discussion by the MAC.

2. OUTCOMES OF ACTION ITEMS

Action Point 90: *“The Office of Energy (OoE) and Western Power to discuss the concerns relating to the future provision of NCS and provide an update to the MAC at the September 2010 meeting.”*

Update: Western Power has raised concerns about whether it has the necessary powers under sections 41 and 42 of the Electricity Corporations Act to contract for a NCS. Western Power and the OoE have identified that legislative amendments and regulations may be required to provide the necessary heads of power. The timeframes for these changes are yet to be confirmed.

The IMO notes that any legislative changes are unlikely to affect the detail of the amendments proposed in PRC_2010_11. The IMO considers that waiting on the approval of any legislative changes before submitting the Rule Change Proposal into the formal submission process may result in an unnecessary delay, due to the timeframes involved in the Rule Change Process (around five months). The IMO suggests that it formally submit the Rule Change Proposal, but if necessary delay the commencement date for the proposed amendments until confirmation is received that Western Power has the necessary head of power for its new role.

Action Point 91: *“The IMO to investigate potential settlement issues relating to NCS provision by generators supplying an Intermittent Load and lacking independent metering, and report back to the MAC with its findings.”*

Update: Mr Andrew Sutherland, who raised the issue originally, provided the IMO with details of a scenario that demonstrated his concerns. In this scenario, a 250 MW load is served by 150 MW of “behind the fence” generation and 100 MW taken from the SWIS. The site has a single meter that measures the net output/consumption relative to the SWIS (in this case -100

MW). If there is an increase in generation of 150 MW in response to an NCS Dispatch Instruction, then this would result in a net meter reading of 50 MW. It would not be possible to determine from this reading to what extent the generator had increased its output or the load had reduced its consumption, leading to issues with settlement.

The IMO agrees with Mr Sutherland that in this scenario it would not be possible to accurately measure the response of the generator to an NCS Dispatch Instruction. The IMO would not be able to provide settlement for energy dispatched under an NCS Contract in this situation. At least one additional meter would be required, either on the load or on the generator providing the NCS. The readings from this meter could then be netted off the existing meter, providing the necessary quantities for settlement. Obviously, Western Power would need to be consulted about any proposed changes to the metering arrangements at a site.

The IMO notes that no changes to the Pre Rule Change Discussion Paper have resulted from this issue.

Action Point 92: *“Western Power and System Management to discuss the provision of NCS payment terms to System Management and advise the IMO whether the NCS Rule Change Proposal (PRC_2010_11) should be updated to remove the exclusion in proposed clause 5.3A.3.”*

Update: On 23 September 2010 Western Power advised the IMO that it had discussed the issue with System Management. Western Power’s view was that the second sentence of the proposed clause 5.3A.3, which prevents a Network Operator from providing System Management with the payment terms of an NCS contract, can be deleted. Western Power believes that System Management’s knowledge of the NCS prices will not disadvantage any party and may enhance the efficiency of market operation.

The IMO has removed this sentence from the proposed clause 5.3A.3 in the Pre Rule Change Discussion Paper.

Action Point 93: *“The ERA to consider the NCS Rule Change Proposal (PRC_2010_11) further and provide an update to the MAC at the September 2010 meeting.”*

Update: At the September 2010 MAC meeting, Mr Chris Brown confirmed that the ERA Secretariat was of the view that no additional changes to the NCS Rule Change Proposal (PRC_2010_11) were needed to support the ERA monitoring requirements, as these would be handled under the Access Code.

3. **POTENTIAL FOR DOUBLE PAYMENTS FOR NCS INSTRUCTIONS**

Clause 6.17.6 of the Market Rules specifies how the Dispatch Instruction Payment is calculated for a Market Participant and Trading Interval. In particular, clause 6.17.6(e) specifies the payment to be made if a Facility is given an instruction under a NCS Contract to either increase its output or reduce its consumption. Following the August 2010 MAC meeting, System Management raised concerns about existing flaws in clause 6.17.6 that could result in double payments to NCS providers.

Clause 6.17.6(d) specifies that the overall Dispatch Instruction Payment should include:

“the sum over all Curtailable Loads registered by the Market Participant of the amount that is the product of:

- i. the quantity by which the Curtailable Load was instructed by System Management to reduce its consumption; and

- ii. the price defined in clause 6.11A.1(d)(ii) that was current at the time of the Trading Interval for the Curtailable Load (accounting for whether the Trading Interval is a Peak Trading Interval or an Off-Peak Trading Interval)."

If a Curtailable Load with an NCS Contract was awarded Reserve Capacity Credits, then it could be dispatched by System Management under either obligation. If the Curtailable Load was dispatched under the NCS Contract, then it could be construed that the Market Participant should be paid for the reduction under both clause 6.17.6(d) and clause 6.17.6(e). To prevent any confusion, the IMO proposes to amend clause 6.17.6(d) to explicitly exclude instructions issued under an NCS Contract.

Clause 6.17.6(c) specifies that the overall Dispatch Instruction Payment should include:

"the sum over all Non-Scheduled Generators registered by the Market Participant of the amount that is the product of:

- i. the quantity, defined as a negative value, by which the Non-Scheduled Generator was instructed by System Management to reduce its output_(where for the purpose of this calculation a Loss Factor adjustment is to be applied to the quantity specified by System Management so that the result is measured at the Reference Node); and
- ii. the Standing Data price defined in Appendix 1(e)(v) that was current at the time of the Trading Interval for the Non-Scheduled Generator for a decrease in generation, (accounting for whether the Trading Interval is a Peak Trading Interval or an Off-Peak Trading Interval) less MCAP for the Trading Interval;"

System Management suggested that this clause could also lead to double payments. However, the assumption behind the drafting of the current Market Rules, and in particular clause 6.17.6(e), is that instructions issued under an NCS Contract are only to increase output or reduce consumption, but not to decrease output. Since NCS payments to Non-Scheduled Generators are not supported, at present there is no danger of double payments similar to that existing for Curtailable Loads. To date the IMO has not proposed to make any changes to support NCS instructions to Non-Scheduled Generators.

However, System Management has advised that in future a Network Operator may find benefit in entering into an NCS Contract with a Non-Scheduled Generator involving NCS instructions to decrease output. Further amendments to the Market Rules would be required to support these agreements. In order to progress the Rule Change Proposal as quickly as possible, the IMO proposes to submit PRC_2010_11 without any further amendments, unless Western Power has a requirement for the Market Rules to support NCS arrangements for Non-Scheduled Generators in the short to medium term.

3. RECOMMENDATIONS

The IMO recommends that the MAC:

- **Notes** the updates on action points relating to PRC_2010_11;
- **Discusses** whether any further amendments to support NCS instructions to Non-Scheduled Generators to decrease output are required at this time; and

- **Discusses** whether PRC_2010_11 should be formally submitted as Rule Change Proposal at this time.

Agenda item 5b, appendix 1:

Wholesale Electricity Market Pre Rule Change Discussion Paper

Change Proposal No: PRC_2010_11
Received date: TBA

Change requested by

Name:	Jacinda Papps
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Organisation:	Independent Market Operator
Address:	Level 3, Governor Stirling Tower, 197 St Georges Terrace
Date submitted:	TBA
Urgency:	Standard Rule Change Process
Change Proposal title:	Removal of Network Control Services expression of interest and tender process from the Market Rules
Market Rules affected:	Clauses 2.1.2, 2.8.13, 2.17.1, 2.22.1, 2.37.6, 2.37.7, 2.37.8, 2.38.1, 2.38.2, 2.38.3, 2.38.4, 2.38.5, 5.1.1, 5.1.2, 5.1.3, 5.1.4, 5.2.1, 5.2.2, 5.2.3, 5.2.4, 5.2.5, 5.2.6, 5.2.7, 5.3.1, 5.3.2, 5.3.3, 5.3.4, 5.3.5, 5.3.6, 5.3.7, 5.3.8, 5.3.9, 5.4.1, 5.4.2, 5.4.3, 5.4.4, 5.4.5, 5.4.6, 5.4.7, 5.4.8, 5.4.9, 5.4.10, 5.4.11, 5.4.12, 5.4.13, 5.4.14, 5.5.1, 5.5.2, 5.5.3, 5.5.4, 5.6.1, 5.6.2, 5.6.3, 5.7.1, 5.7.2, 5.8.1, 5.8.2, 5.8.3, 5.8.4, 5.8.5, 5.8.6, 5.8.7, 5.8.8, 5.9.1, 6.17.6, 7.1.1, 7.6.6, 9.12.1, 9.12.2, 9.14.1, 9.14.2, 9.18.3, 9.24.3, the Glossary and Appendix 1 with the addition of new clauses 5.2A.1, 5.2A.2, 5.2A.3, 5.3A.1, 5.3A.2, 5.3A.3, 5.3A.4, 5.9.2, 5.9.3 and 10.5.1(vD).

Introduction

Clause 2.5.1 of the Wholesale Electricity Market Rules (Market Rules) provides that any person (including the Independent Market Operator (IMO)) may make a Rule Change Proposal by submitting a completed Rule Change Proposal form to the IMO.

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

Independent Market Operator

Attn: Manager Market Development and System Capacity
 PO Box 7096
 Cloisters Square, Perth, WA 6850

Fax: (08) 9254 4339

Email: market.development@imowa.com.au

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

In order for the proposal to be progressed, all fields below must be completed and the 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.

Details of the proposed Market Rule Change

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

Background

A Network Control Service (NCS) is a service provided by generation or Demand Side Management (DSM) that can be a substitute for transmission or distribution network upgrades. An NCS is provided under a Network Control Service Contract (NCSC).

Chapter 5 of the Wholesale Electricity Market Rules (Market Rules) currently outlines the process for NCS procurement and how this service would be operated within the context of the Wholesale Electricity Market (WEM). The chapter includes the Independent Market Operator (IMO) tendering for NCS, contracting for NCS, how the service would be paid for and related compliance and settlement issues.

An NCSC allows System Management to issue real time dispatch instructions to a Facility as required to maintain system security and reliability. This is within the availability limits of the contract. For its part, the Facility providing an NCS gets guaranteed minimum revenue and is not precluded from operating in the energy market.

The current Market Rules require that a Market Participant contracted to provide an NCS must seek certification for Reserve Capacity for the relevant Facility. To the extent that such a Facility is certified, it will be issued Capacity Credits and settled at the prevailing Reserve Capacity price. The NCS payment for a Facility will be reduced by the value of Capacity Credits held by the Facility. There is currently also no restriction on an NCS facility trading its Capacity Credits bilaterally. To the extent this happens, its payment under the Reserve Capacity Mechanism will be reduced.

The energy price that is associated with a Facility providing NCS would be used as the pay-as-bid price in balancing whenever the service is called upon. Apart from the energy payment, which is settled in balancing, the IMO recovers the cost of the payments made under the NCS contract from the relevant Network Operator.

Late in 2009, the policy reasons for the original procurement framework were examined in greater detail. As such, the Office of Energy presented an issues paper at the April 2010 Market Advisory Committee (MAC) meeting¹, which recommended that the IMO give consideration to removing the requirement on the IMO to conduct the EOI and tender processes. The MAC endorsed this concept.

Issue: IMO undertaking tender process

The Office of Energy issues paper noted that chapter 5 is triggered by the Network Operator requesting that the IMO undertake an expression of interest (EOI) process for an NCS under a requirement within the Access Code. No such requirement exists in the Access Code, so it is considered that Chapter 5 could never be formally triggered under the requirements of the Access Code.

The Office of Energy stated that it would appear that the original policy intent, in having the IMO undertake an NCS process and then outlining how the costs are to be allocated, reflected the vertically integrated nature of Western Power at the time of drafting. Since then, Western Power has been disaggregated, with the networks business being separated from generation and retail businesses and regulated under the Access Code.

The Office of Energy issues paper suggested that the need for an NCS instead of a more expensive network enhancement solution would be considered under the Regulatory Test requirements of Chapter 9 of the Access Code. The Regulatory Test only applies to major enhancements, which are defined as exceeding the threshold capital costs of \$15 million for distribution and \$30 million for transmission projects.

Therefore, the Office of Energy considered that in evaluating any NCS proposal, it would need to be compared to network alternatives within a Regulatory Test environment. Also, the Network Operator would want certainty from the ERA that any NCS costs that it bears can be passed on to network users or potential users.

From the above, the Office of Energy recommended that an NCS, as an option to network augmentation, is more efficiently and effectively addressed by Western Power under the Access Code, with regulatory oversight by the ERA.

¹ www.imowa.com.au/Special_Meeting_No2

Proposal:

The proposal is to remove the NCS EOI, tender and contracting processes from Chapter 5 of the Market Rules. This will allow a Network Operator to undertake these processes under the regulatory oversight of the ERA, in accordance with the provisions of the Access Code.

Issue: Potential cross subsidies from NCS energy payments

Under the current Market Rules, if System Management instructs a Market Participant to increase output or reduce consumption under an NCSC then the Market Participant is paid its contracted price for the energy dispatched. This can result in a cross subsidy from Market Participants to the SWIS users benefitting from the NCS. The developers of the Market Rules were probably aware of the cross subsidy, but may have considered it to be acceptable as there was an assumption that the quantity of energy dispatched under NCSCs would be low.

However, recent investigations into network constraints in the Eastern Goldfields have raised the possibility of large quantities of energy being dispatched under an NCSC. This could potentially lead to cross subsidies in the order of millions of dollars per year.

If a generation Facility is dispatched by System Management under an NCSC, then (all else being equal) one or more Facilities providing balancing services will reduce output accordingly. The dispatch should have no impact on any other Market Participants. As a result, the energy payment made to the NCS provider will be offset by payments made by balancers. Under the current balancing regime the balancer is usually Verve Energy and so the payments are priced at MCAP.

The situation is slightly different for an NSC provided by a DSM option, where an instruction from System Management to reduce consumption actually reduces the net quantity of energy generated. Assuming no other variations, one or more Facilities providing balancing services would be expected to reduce output to compensate for the reduction in consumption. However, in theory the dispatch would also leave one or more Market Customers with an excess of energy over their Net Contract Positions, which would be sold into the market at MCAP. Assuming an MCAP balancing price, any payments made by the balancing generator(s) would be counteracted by payments made to Market Customers, leaving no amount to offset the energy payment made to the NCS provider.

In order to prevent a cross subsidy, the market should pay an NCS provider no more than the market balancing price for the energy generated in response to an NCS dispatch.

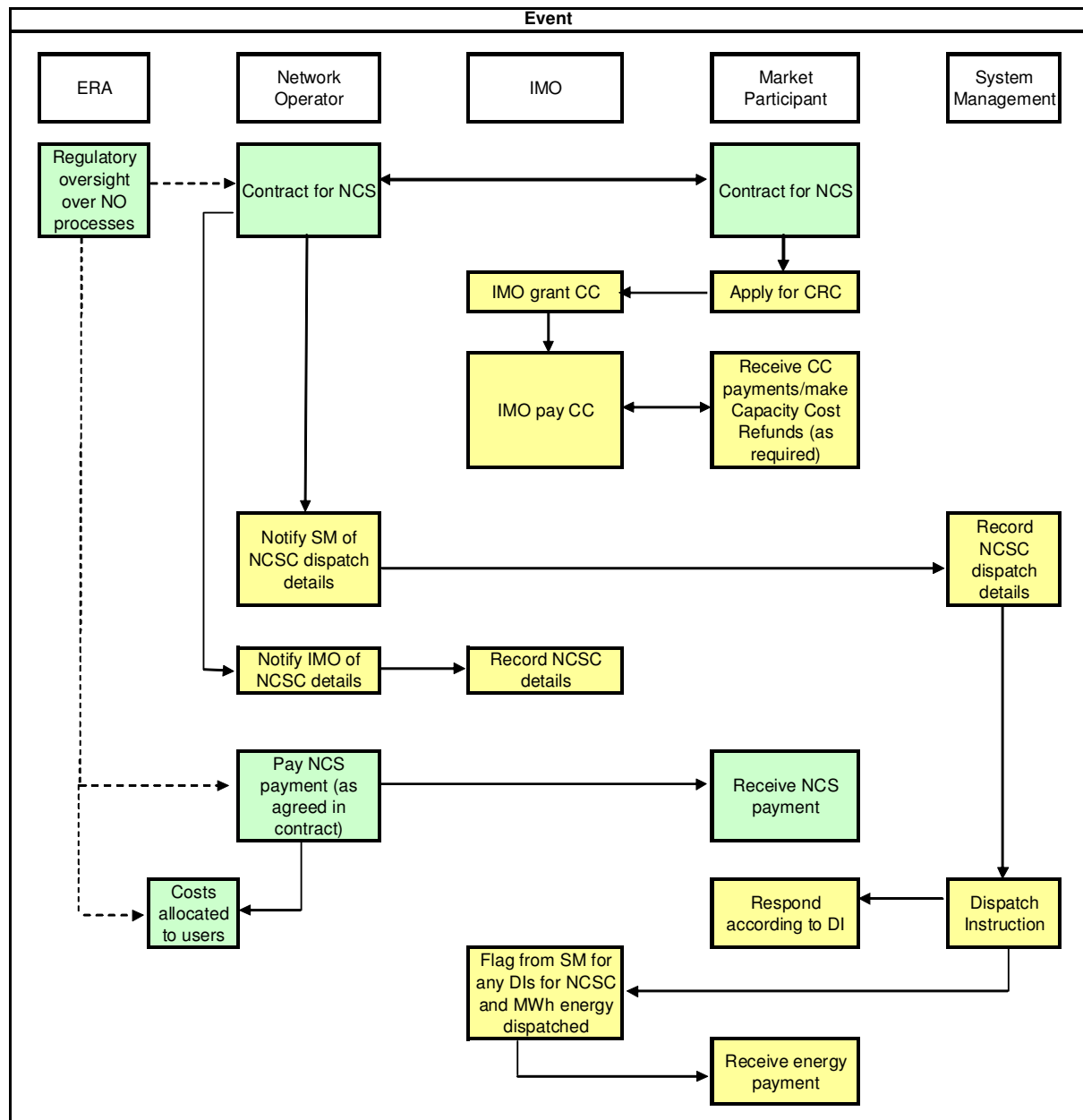
Proposal:

The IMO proposes to amend the Market Rules to change the energy price paid by the market to NCS providers to:

- for NCS provided through generation, MCAP; and
- for NCS provided through DSM, zero.

Overview of proposed process

The proposed amendments facilitate the operation of the NCS process within the broader market processes. This process is outlined in the diagram below (at a high level) with the Market processes indicated in yellow and the off-market processes are indicated in green.



In order to achieve this a number of areas of the Market Rules need to be amended. An explanation of the proposed amendments follows:

Clause/ Section	Explanation of proposed amendments
2.1.2 (e)	Amend IMO role to remove the NCS EOI, Tender and Contract obligations.
2.8.13	Remove the reference to clauses 5.2.3, 5.2.7 and 5.5.1 from the list of protected provisions as these are being removed from chapter 5 (see below).
2.17.1	Remove the reference to clauses 2.37.6, 2.37.7, 5.2.6, 5.2.7 and 5.3.6 from the list of Reviewable Decisions as these decisions are being removed (see below). The IMO will also request that the Office of Energy consider removing these from the Electricity (Wholesale Electricity Market) Regulations.
2.22.1	Delete the reference to chapter 5 in this list of services provided by the IMO for the purposes of the IMO's budget.
2.37 – 2.38	Remove the references to Network Operator in the Credit Limit and Credit Support arrangements as the NCS payment will be a contractual off-market payment. The IMO will also amend the Market Procedure for determining Credit Limits to remove the reference to NCS and Network Operators.
5.1	Amend NCS and NCS contract definitions. Remove clauses 5.1.3 and 5.1.4 as these are related to the procurement process.
5.2, 5.3, 5.4, 5.5 & 5.6	Remove these sections in their entirety. The IMO will also need to repeal the Market Procedure for the Procurement of Network Control Services.
New 5.2A	Add a new section: Registration and Certification. This is to ensure that a Market Participant entering into an NCS contract is registered and applies for Certified Reserve Capacity for the relevant facilities. These clauses are similar in their drafting to the current clauses 5.4.12 and 5.4.13.
New 5.3A	Add a new section: Information required from the Network Operator. This is to ensure that the Network Operator provides: <ul style="list-style-type: none"> the IMO with the information it requires to settle the energy payments; and System Management with the information required to enable System Management to dispatch the services.
5.7	<ul style="list-style-type: none"> Delete clause 5.7.1 as this is covered by the new clause 5.3A.2. Amend clause 5.7.2 to refer to the information that the Network Operator provides to System Management for Dispatch. No change to clause 5.7.4.
5.8	Delete entire clause as this will now be an off-market contractual payment between the Network Operator and the NCS Provider. Also the IMO will not be undertaking the procurement process therefore will not need to invoice for its costs associated with this.
5.9.1	Amend clause 5.9.1 to remove the reference to the monthly NCS payment and prices for NCS energy payments.
New 5.9.2 and 5.9.3	Add new clauses requiring the IMO to provide the relevant Network Operator with information about a dispatch under an NCSC.

Clause/ Section	Explanation of proposed amendments
6.17.6(d)	Updated to explicitly exclude instructions made under an NCS contract to a Curtailable Load (as these are covered in clause 6.17.6(e).
6.17.6(e)	Amend the energy price for NCS dispatches to MCAP for generation contracts and zero for DSM contracts. Note that no changes are anticipated to clauses 6.15.1, 6.17.2 and 6.18.3.
7.1.1	Updated to refer to the NCS contract data received from the Network Operator (rather than the IMO) and update the clause reference.
7.6.6	Updated to refer to the NCS contract data received from the Network Operator.
9.12	Remove these clauses as this payment is now an off-market contractual payment.
9.14.1	Remove the reference to Market Participant Network Control Service settlement amount (MPNCSA) as this input (from clause 9.12.1) is no longer required.
9.14.2	Remove this clause as the calculation is no longer required.
9.18.3	Remove the reference to NCS settlement in the non-STEM settlement statement as this has been removed by deleting clause 9.12. This payment is now an off-market contractual payment.
9.24.3	Remove the reference to “payments which the IMO is required to make under Network Control Services” from the list of priority payments for settlement in default situations.
10.5.1(vD)	Add a new clause requiring the IMO to publish reports providing the MWh quantities of energy dispatched under NCSCs by Facility and Trading Interval, similar to those required for Balancing Support Contracts under clause 10.5.1(vC).
Glossary	<ul style="list-style-type: none"> • Credit Limit: Remove the sentence relating to Network Operators. • Monthly Availability Payment: Remove this definition as this payment is now an off-market contractual payment between a Network Operator and a Market Participant contracted to provide an NCS. • Network Control Service: No change to this definition. • Network Control Service Certification: Remove this definition as the NCS certification no longer applies. This was certification for the tender process. • Network Control Service Contract: Amend to refer to a Network Operator and not the IMO. Also remove the reference to a contract entered into pursuant to chapter 5. • Prudential Obligations: Remove the reference to Network Operators.
Appendix 1: Standing data	Delete the references to the limits on the availability of a facility for NCS, the Monthly Availability Payment and the identity of the Network Operator required to fund the Monthly Availability payment.

In addition to the rule changes identified a number of Market Procedures may need amendment. These are:

- Procurement of NCS;
- Prudential Requirements;
- Dispatch;

- Operational Data Points for Generating Plant;
- Operational Data Points for Non Western Power Networks, Substations, and Loads;
- Certification of Reserve Capacity;
- Declaration of Bilateral Trades and Reserve Capacity Auction;
- Facility Registration, de-Registration and Transfer;
- Reserve Capacity Testing; and
- Settlement.

2. Explain the reason for the degree of urgency:

The IMO proposes that the Rule Change Proposal be progressed via 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)

2.1.2. The functions of the IMO are:

...

- (e) ~~to administer tender processes for Network Control Services where required by these Market Rules and to enter into Network Control Service Contracts;~~ [Blank]

...

2.8.13. The following clauses are Protected Provisions:

- (a) clauses 1.1 to 1.3 and 1.5 to 1.9 ;
- (b) clauses 2.1 to 2.24, 2.28, 2.31.1, 2.31.3, 2.31.5(a), 2.31.6, 2.34.1 and 2.36.1;
- (c) clauses 3.15, 3.18.18 and 3.18.19;
- (d) clauses 4.1.4 to 4.1.12, 4.1.15 to 4.1.19, 4.1.21, 4.1.22, 4.1.24, 4.1.27, 4.5.10, 4.5.11, 4.5.15 to 4.5.20, 4.13.10, 4.13.10A, 4.13.11, 4.13.11A, 4.13.11B, 4.16, 4.24.1, 4.24.2 and 4.24.12;
- (e) ~~clauses 5.2.3, 5.2.7 and 5.5.1;~~ [Blank]
- (f) clauses 9.16.3, 9.16.4 and 9.20.2; and
- (g) clauses 10.1.1, 10.1.2, 10.2.1, 10.3 and 10.4.

2.17.1. Decisions by the IMO made under the following clauses are Reviewable Decisions:

...

- (h) clauses 2.37.1 to 2.37.3;
- (i) ~~clause 2.37.6 and 2.37.7; [Blank]~~
- (j) clause 4.9.9;
- (k) clause 4.15.1;
- (l) clause 4.27.7;
- (m) clause 4.28.7; and
- (n) ~~clauses 5.2.6 and 5.2.7; [Blank]~~
- (o) ~~clause 5.3.6; and [Blank]~~
- (p) clause 10.2.1.

2.22.1. For the purposes of this clause 2.22, the services provided by the IMO are:

- (a) market operation services, including the IMO's operation of the Reserve Capacity market, STEM and Balancing and the IMO's settlement and information release functions;
- (b) system planning services, including the IMO's performance of the Long Term PASA function ~~and functions under Chapter 5; and~~
- (c) market administration services, including the IMO's performance of the Market Rule change process, Market Procedure change process, the operation of the Market Advisory Committee and other consultation, monitoring, enforcement, audit, registration related functions and other functions under these Market Rules.

2.37.6. ~~The IMO must determine a Credit Limit for each Network Operator that is required under these Market Rules to fund a Network Control Service Contract, where this Credit Limit is the dollar amount determined by the IMO as being equal to maximum possible amount payable over a 70 day period under the Network Control Service Contracts relating to the Network Operator. [Blank]~~

2.37.7. ~~The IMO must review the Network Operator's Credit Limit when a Network Control Services Contract relating to the Network Operator commences or terminates. [Blank]~~

2.37.8. The IMO must notify each Market Participant, ~~and each Network Operator required to fund a Network Control Service Contract,~~ of their Credit Limit, and provide details of the basis for the determination of the Credit Limit.

2.38.1. Where at any time a Market Participant, ~~or Network Operator that is required to fund a Network Control Service Contract,~~ does not meet the Acceptable Credit

Criteria set out in clause 2.38.6, then the Market Participant, ~~or Network Operator~~ ~~required to fund a Network Control Service Contract~~, must ensure that the IMO holds the benefit of Credit Support in an amount not less than its Credit Limit.

- 2.38.2. Where a Market Participant's ~~or a Network Operator's~~ existing Credit Support is due to expire or terminate, then that Market Participant ~~or Network Operator~~ must, at least 10 Business Days before the time when the existing Credit Support will expire or terminate, ensure that the IMO holds the benefit of a replacement Credit Support in an amount not less than the level required under clause 2.38.1 that will become effective at the expiry of the existing Credit Support.
- 2.38.3. Where a Market Participant's ~~or a Network Operator's~~ Credit Limit is increased, or where the existing Credit Support is no longer current or valid (for example, because the credit support provider ceases to meet the Acceptable Credit Criteria) or where some or all of the Credit Support has been drawn on by the IMO in accordance with these Market Rules, then that Market Participant ~~or Network Operator~~ must ensure that the IMO holds the benefit of a replacement Credit Support in an amount not less than the level required under clause 2.38.1 within one Business Day.
- 2.38.4. The Credit Support for a Market Participant ~~or Network Operator~~ must be:
- (a) an obligation in writing that:
 - i. is from a credit support provider, who must be an entity which meets the Acceptable Credit Criteria and which itself is not a Market Participant;
 - ii. is a guarantee or bank undertaking in a form prescribed by the IMO;
 - iii. is duly executed by the credit support provider and delivered unconditionally to the IMO;
 - iv. constitutes valid and binding unsubordinated obligations to the credit support provider to pay to the IMO amounts in accordance with its terms which relate to obligations of the relevant Market Participant ~~or Network Operator~~ under the Market Rules; and
 - v. permits drawings or claims by the IMO to a stated amount; or
 - (b) a cash deposit ("**Security Deposit**") made with the IMO by or on behalf of the Market Participant ~~or Network Operator~~.
- 2.38.5. Where Credit Support is provided as a Security Deposit in accordance with clause 2.38.4(b), it will accrue interest daily at the Bank Bill Rate, and the IMO must pay the Market Participant ~~or Network Operator~~ the interest accumulated at the end of each calendar month less any liabilities and expenses incurred by the IMO, including bank fees and charges.

For ease of reference a “clean” version of the proposed chapter 5 is contained in appendix 1 to this Rule Change Proposal.

5 Network Control Services Procurement

Network Control Service Tender Process and Timelines

5.1. Definitions and Obligations

- 5.1.1. A Network Control Service is ~~any service specified according to clause 5.2.1 a~~ service provided by distributed generation or demand side management that can be a substitute for transmission or distribution network upgrades.
- 5.1.2. A Network Control Service Contract is a contract between ~~the IMO~~ a Network Operator and a Market Participant for the Market Participant to provide a Network Control Service.
- 5.1.3. ~~The IMO must not enter into a Network Control Service Contract except:~~
 - ~~(a) following a tender process under clause 5.4; or~~
 - ~~(b) in the case of a Network Control Service Contract to apply from Energy Market Commencement, with the approval of the Minister. [Blank]~~
- 5.1.4. ~~The IMO must seek to carry out the expression of interest, certification and tender processes in this Chapter 5 in a way that minimises its costs of doing so. [Blank]~~

5.2. Network Control Service Procurement Requirements [Blank]

- 5.2.1. ~~Where required by the Access Code to submit a major augmentation, as defined in the Access Code, to the tender process set out in the Market Rules, a Network Operator must notify the IMO of the opportunity for network support generation or Demand Side Management to compete with a transmission or distribution upgrade. The notification must include:~~
 - ~~(a) a specification of the services that would be required from the facility, including:~~
 - ~~i. the maximum active and reactive power quantities required, specified in MW and MVAR;~~
 - ~~ii. the estimated number of hours per year that the services would be required; and~~
 - ~~iii. the required period of notice to call upon the services;~~

- (b) ~~the location at which the facility would need to connect to the relevant network;~~
 - (c) ~~the Network Operator's estimate of the costs involved in connecting a generation facility that could provide the services specified in paragraph (a) from the location specified in paragraph (b);~~
 - (d) ~~the date by which the facility is required to be in service;~~
 - (e) ~~the Network Operator's estimate of the cost of an augmentation to the Network that would provide the services; and~~
 - (f) ~~the minimum period over which the services would be required, from the date specified in paragraph (d). [Blank]~~
- 5.2.2. ~~The minimum period over which the Network Control Service is required is the period specified under clause 5.2.1(f). The IMO may at any time extend the length of the contracted period. [Blank]~~
- 5.2.3. ~~The IMO must call for expressions of interest from potential service providers to identify whether any other person could provide the required Network Control Service. [Blank]~~
- 5.2.4. ~~A person (“**potential service provider**”) may submit a written expression of interest to the IMO indicating that the potential service provider considers that it would be able to provide the Network Control Service. The expression of interest must contain:~~
- (a) ~~the approximate quantity of the Network Control Service that the potential service provider would be able to supply;~~
 - (b) ~~whether the Network Control Service will be provided by a generation facility or Demand Side Management option;~~
 - (c) ~~indicative arrangements for activating the Network Control Service;~~
 - (d) ~~the approximate cost of the Network Control Service; and~~
 - (e) ~~other material terms and conditions which the potential service provider proposes would apply to the provision of the Network Control Service. [Blank]~~
- 5.2.5. ~~An expression of interest is not binding on the potential service provider. A person is not required to have submitted an expression of interest to submit a tender response for any Network Control Service tender under clause 5.4. [Blank]~~
- 5.2.6. ~~Where, after considering the responses to the expression of interest, the IMO identifies that no person could provide the required Network Control Service for a~~

~~cost that is less than 50% above the Network Operator's estimate referred to in clause 5.2.1(e), then the IMO must:~~

- ~~(a) — notify that Network Operator that there are no other alternative providers; and~~
- ~~(b) — notify each person that submitted an expression of interest that no tender will be held. — [Blank]~~

5.2.7. ~~Where the IMO identifies that a person other than the Network Operator described in clause 5.2.1 could provide the required Network Control Service, for a cost that is less than 50% above the Network Operator's estimate referred to in clause 5.2.1(e), then the IMO must:~~

- ~~(a) — make the announcement in clause 5.4.1 within 10 Business Days of the closing date for expressions of interest; and~~
- ~~(b) — carry out the tender process described in clause 5.4. — [Blank]~~

5.2A Registration and Certification

5.2A.1. Where a Market Participant enters into a Network Control Service Contract for a Facility, the Market Participant must ensure that the Facility is registered as a Registered Facility during the period for which Network Control Services are to be provided under the Network Control Service Contract.

5.2A.2 Where a Market Participant enters into a Network Control Service Contract for a Facility then the Market Participant must apply to the IMO for Certified Reserve Capacity in respect of the Facility, in respect of each Reserve Capacity Cycle that the Facility would be eligible to participate in over the period for which Network Control Services will be provided under the relevant Network Control Service Contract.

5.3. Network Control Service Certification — [Blank]

5.3.1. ~~A person must be registered as a Market Participant before applying for a Facility to be certified under clause 5.3.2. — [Blank]~~

5.3.2. ~~A Market Participant wishing to submit a Network Control Service tender under clause 5.4 must apply to the IMO for certification that the IMO considers that the Facility can provide the relevant Network Control Service and of the level of that service that the IMO considers the Facility can reliably provide (“Network Control Service Certification”). — [Blank]~~

5.3.3. ~~The Network Operator referred to in clause 5.2.1 does not need to apply to the IMO for certification. — [Blank]~~

- 5.3.4. ~~A Market Participant may apply for Network Control Service Certification in respect of a Facility that is not a Registered Facility. [Blank]~~
- 5.3.5. ~~The Market Participant applying for Network Control Service Certification must provide to the IMO the information specified for this purpose in the Network Control Service Procedure. [Blank]~~
- 5.3.6. ~~The IMO may certify a Facility for a level of Network Control Service. The IMO must only certify a Facility for a level that the IMO is satisfied that the Facility can reliably provide. [Blank]~~
- 5.3.7. ~~A Network Control Service Certification must contain:~~
 - ~~(a) the Network Control Service tender for which the Network Control Service Certification was issued;~~
 - ~~(b) the Facility to which the Network Control Service Certification pertains;~~
 - ~~(c) the quantity of Network Control Service that may be reliably provided by the Facility, including any additional conditions or performance information; and~~
 - ~~(d) the notice period for calling upon the Network Control Service. [Blank]~~
- 5.3.8. ~~Network Control Service Certifications expire after the IMO announces the results of the Network Control Service tender to which they relate. [Blank]~~
- 5.3.9. ~~The IMO must document the procedure it follows in processing applications for Network Control Service Certification in the Network Control Service Procedure, and the IMO, Market Participants and Network Operators must follow that documented Market Procedure when processing Network Control Service Certification applications. [Blank]~~

5.3A Information required from the Network Operator

- 5.3A.1. When a Network Operator has entered into a Network Control Service Contract with a Market Participant, the Network Operator must as soon as practicable and not less than 20 Business Days prior to a Network Control Service Contract taking effect, provide the IMO with:
 - (a) the identity of the Market Participant;
 - (b) the identity of the Facility providing the service;
 - (c) a unique identifier for the Network Control Service Contract;
 - (d) the period over which the services are to be provided by the Network Control Service Contract; and
 - (e) whether the Network Control Service Contract requires that the Facility not be part of an aggregated Facility.

- 5.3A.2 When any change occurs to the details of a Network Control Service Contract listed in clause 5.3A.1 the Network Operator must inform the IMO as soon as practicable.
- 5.3A.3. When a Network Operator has entered into a Network Control Service Contract with a Market Participant, the Network Operator must provide System Management with the details of the Network Control Services Contract to enable System Management to dispatch the services provided under it.
- 5.3A.4 When any change occurs to the details of a Network Control Service Contract provided to System Management under clause 5.3A.3 the Network Operator must inform System Management as soon as practicable.

5.4. Network Control Service tenders [Blank]

- 5.4.1. ~~Where it is required to carry out a tender process for Network Control Service, the IMO must publish details of the tender process and timelines, including:~~
- ~~(a) the date by which Network Control Service Certification must be obtained for a tender to be submitted;~~
 - ~~(b) the date on which the invitation to tender will be published;~~
 - ~~(c) the last date on which the tenders may be submitted; and~~
 - ~~(d) the date on which the IMO will announce the results of the tender process.~~
- [Blank]
- 5.4.2. ~~By the date specified in clause 5.4.1(a), Market Participants wishing to submit a tender must have secured Network Control Service Certification for the relevant Facility in accordance with clause 5.3. [Blank]~~
- 5.4.3. ~~By the date specified in clause 5.4.1(b), the IMO must issue an invitation to tender for the acquisition of the relevant Network Control Service. [Blank]~~
- 5.4.4. ~~An invitation to tender for the acquisition of a Network Control Service must contain:~~
- ~~(a) the quantity of the Network Control Service to be acquired under the invitation to tender including location and timing of the requirements, and any other limitations on the provision of the service, including minimum acceptable quantities;~~
 - ~~(b) the period over which the service is to be provided, determined in accordance with clause 5.2.2, including details of any extension options;~~
 - ~~(c) terms and conditions of the tender, including proposed terms and conditions for the Network Control Service Contracts to be entered into as a result of the tender process;~~

- ~~(d) the required format and content of tender responses, including:~~
- ~~i. the name and contact details of the tenderer;~~
 - ~~ii. the Facility which will provide the Network Control Service;~~
 - ~~iii. the quantity of the Network Control Service available from the Facility and any limitations on the time periods for which the Network Control Service will be available, including where applicable:~~
 - ~~1. times of the day, of the week, or of the year for which the Facility will not be available to provide the Network Control Service, or will only be able to provide the service in reduced quantity or subject to other restrictions;~~
 - ~~2. a maximum number of times which the Facility may be called upon to provide the Network Control Service in a time period;~~
 - ~~3. the maximum duration of each occasion when the Facility may be called upon to provide the Network Control Service; and~~
 - ~~4. a maximum cumulative duration for which the Facility may be called upon to provide the Network Control Service in a time period;~~
 - ~~iv. availability of the Facility, including arrangements when Planned Outages are scheduled;~~
 - ~~v. the notice period for calling on the Facility to provide the Network Control Service;~~
 - ~~vi. whether the IMO must accept the entire quantity offered, or whether it can accept a part of the quantity offered;~~
 - ~~vii. an offered Monthly Availability Payment amount in dollars; and~~
 - ~~viii. an offered per MWh price to apply when the Facility is called upon to provide the Network Control Service; and~~
- ~~(e) process details for submitting tenders. [Blank]~~

- 5.4.5. A Market Participant or the Network Operator referred to in clause 5.2.1 may respond to the invitation to tender by submitting written tenders in the form, and by the date, specified in the invitation to tender. A Market Participant or the Network Operator referred to in clause 5.2.1 may offer for all or part of the Network Control Service requirements. [Blank]

- 5.4.6. ~~A Market Participant submitting a tender in response to an invitation to tender must not offer more capacity than is indicated by the relevant Network Control Service Certification. [Blank]~~
- 5.4.7. ~~A Market Participant submitting a tender in response to an invitation to tender must not offer a per MWh price to apply when the Facility is called upon to provide the Network Control Service that is greater than the Alternative Maximum STEM Price. [Blank]~~
- 5.4.8. ~~In determining the result of a tender process, and entering into Network Control Service Contracts, the IMO must seek to achieve the lowest total cost of the tenders selected, evaluating each tender on the basis of:~~
- ~~(a) — the offered Monthly Availability Payment amount contained in the tender;~~
 - ~~(b) — plus an amount equal to:~~
 - ~~i. — the offered per MWh price to apply when the Facility is called upon to provide the Network Control Service contained in the tender;~~
 - ~~ii. — multiplied by the estimated number of hours per year that the services would be required specified in accordance with clause 5.2.1(a)(ii) divided by 12. [Blank]~~
- 5.4.9. ~~The IMO is not under any obligation to accept any tender, or enter into a Network Control Service Contract in respect of any tender, made in response to an invitation to tender under this clause 5.4. However, where the IMO accepts a tender, it must accept it in relation to the entire quantity offered unless the relevant Market Participant or Network Operator indicated that the IMO may accept a part of the quantity offered. [Blank]~~
- 5.4.10. ~~The IMO must notify each Market Participant and Network Operator that submitted a tender as to whether it has been successful by the date specified in accordance with clause 5.4.1(d). [Blank]~~
- 5.4.11. ~~Where a selected tender response is not from the Network Operator referred to in clause 5.2.1, then the IMO and the selected Market Participant must execute a Network Control Service Contract. [Blank]~~
- 5.4.12. ~~Where a selected tender response is not from the Network Operator referred to in clause 5.2.1, then the selected Market Participant must apply to the IMO for Certified Reserve Capacity in respect of each of the Facilities set out in the selected tender response, in respect of each Reserve Capacity Cycle that each Facility would be eligible to participate in over the period for which Network Control Services will be provided under the relevant Network Control Service Contract. [Blank]~~

- 5.4.13. ~~Where a Market Participant executes a Network Control Service Contract pertaining to a Facility, the Market Participant must ensure that the Facility is registered as a Registered Facility during the period for which Network Control Services are to be provided under the Network Control Service Contract. [Blank]~~
- 5.4.14. ~~The IMO must document the procedure it follows in carrying out Network Control Service tender processes in the Network Control Service Procedure, and:~~
- ~~(a) — the IMO must follow that documented Market Procedure when carrying out tender processes under this clause 5.4; and~~
 - ~~(b) — Market Participants and Network Operators must follow that documented Market Procedure when participating in a tender process under this clause 5.4. [Blank]~~

~~Network Control Service Contracts~~[Blank]

5.5. ~~Contract Conditions~~[Blank]

- 5.5.1. ~~Prior to the first tender process under clause 5.4, the IMO must develop a standard form Network Control Service Contract which accords with the requirements of this clause 5.5. [Blank]~~
- 5.5.2. ~~The IMO must consult with System Management when developing or amending the standard contractual terms. [Blank]~~
- 5.5.3. ~~A standard form Network Control Service Contract must contain the following:~~
- ~~(a) — the Network Control Service being provided;~~
 - ~~(b) — the duration of the contract, in accordance with clause 5.2.2, and specifying any extension options;~~
 - ~~(c) — the procedures for the IMO, via System Management, to call on the Facility to provide the service, including:~~
 - ~~i. — operational arrangements under which the IMO will allow System Management to call on the relevant Facility to provide the service;~~
 - ~~ii. — the quantities of the service that will be provided, including where applicable, any limitations on the time periods for which the relevant Facility can be called on to provide the service, including:~~
 - ~~1. — times of the day, or of the week, or of the year at which the relevant Facility cannot be called on to provide the service, or can only be called on to provide the service in reduced quantity or with other restrictions;~~

- 2. ~~a maximum number of times which the relevant Facility can be called on to provide the service, in a week, or in a year, as applicable;~~
- 3. ~~the maximum duration of each occasion when the relevant Facility can be called on to provide the service; and~~
- 4. ~~a maximum cumulative duration for which the relevant Facility can be called on to provide the Network Control Service in a day, or in a week, or in a year, as applicable.~~
- iii. ~~availability of the service, including arrangements when Planned Outages of the Facility are scheduled; and~~
- iv. ~~the notice period for calling on the relevant Facility to provide the service.~~
- (d) ~~the Facility that will provide the service, and a requirement that the Facility is registered as a Registered Facility during the period for which Network Control Service are to be provided;~~
- (e) ~~any conditions required to ensure that if the relevant Facility is transferred or disposed of, the transferee will be bound by the contract obligations (for example, by requiring the execution of a deed of assumption or novation);~~
- (f) ~~the technical standards which the relevant Facility must comply with;~~
- (g) ~~the Monthly Availability Payment and monthly payment terms, which must be in accordance with clause 5.8;~~
- (h) ~~the per MWh price to apply when the Facility is called upon to provide the service;~~
- (i) ~~measurement of the quantity of service provided;~~
- (j) ~~compliance standards, testing procedures and liquidated damages for the Market Participant, which must be in accordance with clause 5.6;~~
- (k) ~~procedures for the Market Participant to inform the IMO and System Management when the capability of any of the relevant Facilities to provide the service changes materially;~~
- (l) ~~contract modification procedures;~~
- (m) ~~provisions dealing with contract suspension, default, termination, force majeure conditions, and assignment; and~~
- (n) ~~such other terms and conditions as the IMO considers appropriate. [Blank]~~

5.5.4. ~~Despite the existence of the standard form Network Control Service Contract, the IMO may enter into a Network Control Service Contract that varies from the standard form Network Control Service Contract. The IMO must consult with~~

~~System Management before entering into a Network Control Service Contract that varies substantially from the terms of the standard form. [Blank]~~

5.6. Network Control Service Contract Compliance Conditions[Blank]

5.6.1. ~~Testing processes, compliance processes and non-compliance liquidated damages are to be defined within each Network Control Service Contract. [Blank]~~

5.6.2. ~~If the Market Participant fails to provide a Network Control Service in the quantity and at the time and location requested by the IMO or System Management in accordance with the contract, the IMO and the Market Participant must follow the procedure in the Network Control Service Contract. [Blank]~~

5.6.3. ~~A Network Control Service Contract must contain a procedure to be used following the failure of a Market Participant to provide a Network Control Service in the quantity and at the time and location requested by the IMO or System Management in accordance with the contract, and this procedure must include:~~

- ~~(a) — a requirement that the IMO must issue to the Market Participant a request for:

 - ~~i. — a written explanation; and~~
 - ~~ii. — a written plan to remedy the failure;~~~~
- ~~(b) — a requirement that the Market Participant must respond to the request within five Business Days of receiving the request; and~~
- ~~(c) — if the IMO finds the explanation or the plan to remedy the failure to be unsatisfactory, then it may, in accordance with the Network Control Service Contract:

 - ~~i. — require a test of the Registered Facility's ability to provide the Network Control Service in accordance with the contract terms. The Market Participant must bear its own costs associated with the tests; and~~
 - ~~ii. — withhold or reduce the Market Participant's payments for the Network Control Service for a period. [Blank]~~~~

5.7. Network Control Service Dispatch

5.7.1. ~~The IMO must provide System Management with the details of the Network Control Services Contract to enable System Management to dispatch the services provided under it. Despite this, the Network Operator must not provide System Management with the payment terms of the contract, which must be kept confidential. [Blank]~~

- 5.7.2. System Management may call upon the relevant Facility to provide services under a Network Control Services Contract in accordance with the terms of the contract, as advised to it by the Network Operator in accordance with clause 5.3A.3 and amended in accordance with clause 5.3A.4.

Payments and Settlement Data

5.8. ~~Network Control Service Contracts Payments [Blank]~~

- 5.8.1. ~~The monthly Network Control Service Contract payment to a Market Participant that has a Network Control Service Contract with the IMO in respect of a Facility is to be the greater of zero and:~~
- ~~(a) — the Monthly Availability Payment determined in accordance with the contract; less~~
 - ~~(b) — the value of Capacity Credits held by the Market Participant for that Facility, where this value is the sum of the total value of all of those Capacity Credits, where each Capacity Credit is valued at the applicable Monthly Reserve Capacity Price even if those Capacity Credits are traded bilaterally; less~~
 - ~~(c) — the value of any liquidated damages payable under the contract in respect of a failure of the Market Participant to meet its obligations under the Network Control Service Contract. [Blank]~~
- 5.8.2. ~~The IMO must pay the Market Participant the monthly Network Control Service Contract payment in accordance with Chapter 9. [Blank]~~
- 5.8.3. ~~The Network Operator referred to in clause 5.2.1 must pay the IMO the monthly Network Control Service Contract payment in accordance with Chapter 9. [Blank]~~
- 5.8.4. ~~After receiving the notification described in clause 5.2.1 but before commencing Network Control Services procurement, the IMO may estimate the costs described in clause 5.8.5(a), and invoice the Network Operator referred to in clause 5.2.1 for the estimated amount. [Blank]~~
- 5.8.5. ~~The IMO must determine the dollar amount that is:~~
- ~~(a) — the costs it has incurred in:~~
 - ~~i. — the expression of interest process described in clause 5.2;~~
 - ~~ii. — the certification process described in clause 5.3;~~
 - ~~iii. — the tender process described in clause 5.4,~~
- ~~in respect of any tender process for Network Control Services~~

(b) ~~less the amount received under any relevant invoice issued under clause 5.8.4. [Blank]~~

5.8.6. ~~Where the dollar amount determined in clause 5.8.4 is a positive amount, the IMO must issue an invoice to the Network Operator referred to in clause 5.2.1, and subject to clause 5.8.8, the Network Operator must pay the IMO the invoiced amount. [Blank]~~

5.8.7. ~~Where the dollar amount determined in clause 5.8.4 is a negative amount, the IMO must issue an invoice the Network Operator referred to in clause 5.2.1, and subject to clause 5.8.8, the IMO must pay the Network Operator the determined amount. [Blank]~~

5.8.8. ~~Where the Network Operator disputes the amount on an invoice issued under clauses 5.8.4, 5.8.6 or 5.8.7, the dispute resolution process set out in clauses 2.18 to 2.20 apply. [Blank]~~

5.9. Settlement Data

5.9.1. The IMO must provide the following information to the settlement system:

- (a) ~~for each month's Network Control Service Contract Payment:~~
 - i. ~~the amount of the payment set out in accordance with clause 5.8.1;~~
 - ii. ~~the Market Participant to which the payment will be made; and~~
 - iii. ~~the Network Operator by which the payment will be made. [Blank]~~
- (b) for each Network Control Service Contract energy payment:
 - i. the prices set out in the Network Control Service Contract in accordance with clause 5.5.3(h); and [Blank]
 - ii. the Market Participant to which the payment will be made.

5.9.2. The IMO must provide Network Operators with details of any quantities dispatched under their Network Control Service Contracts in a Trading Month by 5:00 PM on the Invoicing Date for Non-STEM Settlement Statements for that Trading Month.

5.9.3 The information provided by the IMO to a Network Operator under clause 5.9.2 must include, for each relevant Facility and Trading Interval:

- (a) the unique identifier of the Network Control Service Contract under which the Dispatch Instruction was issued;
- (b) the MWh quantity by which the Facility was instructed by System Management to increase its output as specified by System Management in accordance with clause 7.13.1(dB) (Loss Factor adjusted to the Reference

Node) or reduce its consumption as specified by System Management in accordance with clause 7.13.1(dB);

(c) the per MWh price paid by the IMO for the quantity dispatched under the Network Control Service Contract; and

(d) the total amount paid by the IMO to the Market Participant for the quantity dispatched under the Network Control Service Contract.

6.17.6. The Dispatch Instruction Payment, DIP(p,d,t), for Market Participant p and Trading Interval t of Trading Day d equals the sum of:

(a) zero, if Market Participant p:

...

(d) the sum over all Curtailable Loads registered by the Market Participant of the amount that is the product of:

i. the quantity by which the Curtailable Load was instructed by System Management to reduce its consumption, excluding any instructions given under a Network Control Service Contract; and

ii. the price defined in clause 6.11A.1(d)(ii) that was current at the time of the Trading Interval for the Curtailable Load (accounting for whether the Trading Interval is a Peak Trading Interval or an Off-Peak Trading Interval)-; and

(e) if the participant is given an instruction under a Network Control Service Contract then the sum over all Network Control Service Contract fFacilities registered by the Market Participant of the amount that is the product of:

i. the quantity by which the fFacility was instructed by System Management to increase its output as specified by System Management in accordance with clause 7.13.1(dB) (where for the purpose of this calculation a Loss Factor adjustment is to be applied to the quantity specified by System Management so that the result is measured at the Reference Node) or reduce its consumption as specified by System Management in accordance with clause 7.13.1(dB); and

ii. the price defined as: ~~as applicable under the relevant Network Control Service Contract for the facility as specified in clause 5.9.1(b).~~

1. MCAP for Trading Interval t, if the Facility was instructed to increase its output; or

2. zero, if the Facility was instructed to reduce its consumption.

7.1.1. System Management must maintain the following data set, and must use this data set when determining which Dispatch Instructions it will give:

...

- (m) Network Control Service Contract data, if any, received from ~~the IMO~~ a Network Operator in accordance with clauses ~~5.7.4~~ 5.3A.3 and 5.3A.4.

7.6.6. System Management may issue Dispatch Instructions to Market Participants other than the Electricity Generation Corporation:

- (a) in accordance with any Ancillary Service Contract;
- (b) in accordance with any Balancing Support Contract;
- (c) in accordance with the details of any Network Control Service Contract, as advised to System Management by a Network Operator in accordance with clause 5.3A.3 or updated by a Network Operator in accordance with clause 5.2A.4;
- (d) in connection with any test of equipment allowed under these Market Rules; or
- (e) under clause 7.6.3 or clause 7.6.4.

9.12. ~~Network Control Service Calculations for a Trading Month~~ [Blank]

9.12.1. ~~The Market Participant Network Control Service settlement amount for Market Participant p for Trading Month m is:~~

$$\text{MPNCSA}(p,m) = \text{Sum}(f \in F, n \in N, \text{Network Control Service Contract Payment}(p,m,f,n))$$

Where

~~Network Control Service Contract Payment (p,m,f,n) is the net payment to be made by the IMO under a Network Control Service Contract to Market Participant p, for Trading Month m for Registered Facility f as specified by the IMO under clause 5.9.1 which relates to Network Operator n;~~

~~F is the set of all Market Participant p's Registered Facilities, where "f" refers to a member of that set; and~~

~~N is the set of all Network Operators, where "n" refers to a member of that set.~~ [Blank]

9.12.2. ~~The Network Operator Network Control Service settlement amount for Network Operator n for Trading Month m is:~~

$$\text{NONCSA}(n,m) = \text{Sum}(p \in P, f \in F, \text{Network Control Service Contract Payment}(p,m,f,n))$$

Where

~~Network Control Service Contract Payment(p,m,f,n) is the net payment to be made by the IMO under a Network Control Service Contract to Market Participant p, for Trading Month m for Registered Facility f which relates to Network Operator n as specified by the IMO under clause 5.9.1;~~

~~P is the set of all Market Participants, where “p” refers to a member of that set; and~~

~~F is the set of all Market Participant p’s Registered Facilities, where “f” refers to a member of that set. [Blank]~~

- 9.14.1. The Net Monthly Non-STEM Settlement amount for the IMO to Market Participant p for Trading Month m is:

$$\text{NMNSSA}(p,m) = \text{RCSA}(p,m) + \text{Sum}(d, \text{BSA}(p,d,t)) + \text{ASSA}(p,m) + \text{COCSA}(p,m) + \text{RSA}(p,m) + \text{MPNCSA}(p,m) + \text{MPFSA}(p,m)$$

- 9.14.2. ~~The Net Monthly Network Operator Settlement Amount for the IMO to Network Operator n for Trading Month m~~

$$\text{NMNOSA}(n,m) = (-1) \times \text{NONCSA}(n,m)$$

~~Where NONSCA is defined in clause 9.12.2. [Blank]~~

- 9.18.3. A Non-STEM Settlement Statement must contain the following information:

...

- ix. details of amounts calculated for the Market Participant under clauses 9.7 to 9.14 with respect to:

1. Reserve Capacity settlement;
2. Balancing settlement;
3. Ancillary Services settlement
4. Commitment and Outage Compensation settlement
- 4A. Non-Compliance Cost settlement;
5. Reconciliation settlement;
6. ~~Network Control Service settlement; and [Blank]~~
7. Fee settlement; and
8. Net Monthly Non-STEM Settlement Amount;

- 9.24.3. Notwithstanding anything else in these Market Rules, if at any time the total amount received by the IMO from Rule Participants in cleared funds (“**Total**”

Amount) is not sufficient to make the payments which the IMO is required to make under these Market Rules (for example, as a result of default by one or more Rule Participants), then the IMO's liability to make those payments is limited to the Total Amount. The IMO must apply the Total Amount as follows:

- (a) first, the IMO must apply the Total Amount to satisfy:
 - i. payment of Revenue Requirement Settlement Amounts to the IMO, System Management and the Economic Regulation Authority (including as contemplated by clause 9.22.10);
 - ii. payments which the IMO is required to make under Supplementary Capacity Contracts or to a provider of Ancillary Services holding an Ancillary Service Contract with System Management; and
 - iii. ~~payments which the IMO is required to make under Network Control Service Contracts; and [Blank]~~
 - iv. funds required to be disgorged or repaid by the IMO as contemplated by clause 9.24.2; and

...

- 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:

...

- (vC) reports providing the MWh quantities of energy dispatched under Balancing Support Contracts by Facility and Trading Interval, as specified by System Management in accordance with clause 7.13.1(dA), for each Trading Month which has been settled;
- (vD) reports providing the MWh quantities of energy dispatched under Network Control Service Contracts by Facility and Trading Interval, as specified by System Management in accordance with clause 7.13.1(dB), for each Trading Month which has been settled;

...

Credit Limit: In respect of a Market Participant, the amount determined by the IMO in accordance with clause 2.37.4. ~~In respect of a Network Operator, the amount determined by the IMO in accordance with clause 2.37.6.~~

Monthly Availability Payment: ~~The maximum monthly payment by a Network Operator to a Market Participant providing capacity under a Network Control Service Contract.~~

Network Control Service Certification: ~~Has the meaning given in clause 5.3.2.~~

Network Control Service Contract: A contract between ~~the IMO~~ a Network Operator and a Market Participant, ~~entered into pursuant to chapter 5,~~ to provide a Network Control Service.

Prudential Obligations: In respect of a Market Participant ~~or Network Operator~~, the obligations set out in clauses 2.37 to 2.43.

Appendix 1: Standing Data

This Appendix describes the Standing Data to be maintained by the IMO for use by the IMO in market processes and by System Management in dispatch processes.

Standing Data required to be provided as a pre-condition for Facility Registration, and which is to be updated by Rule Participants as necessary, is described by clauses (a) to (j).

Standing Data not required to be provided as a pre-condition for Facility Registration but that which is required to be maintained by the IMO includes the data described in clauses (k) onwards.

...

(k) For each Registered Facility:

...

ii. Network Control Service information including:

1. the identity of any Network Operator that has entered into a Network Control Service Contract in relation to the Facility~~limits on the availability of a facility;~~
2. the unique identifier for any Network Control Service Contract applicable to the Facility provided by a Network Operator in accordance with clause 5.3A.1(c)~~the Monthly Availability Payment for the facility; and~~
3. whether the Facility is subject to a Network Control Service Contract that requires the Facility not to part of an aggregated Facility~~the identity of the Network Operator required to fund the Monthly Availability Payment; and~~

iii. the Facility Dispatch Tolerance;

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

- (a) *to promote the economically efficient, safe and reliable production and supply of electricity and electricity related services in the South West interconnected system.*

The IMO considers that the proposed amendments will promote the economically efficient production and supply of electricity in the SWIS. The proposed amendments allow a Network Operator to more effectively manage its own risk in contracting for NCSs. The amendments also remove the potential energy payment cross subsidy from Market Participants to the SWIS users benefitting from an NCS.

Additionally, the IMO considers that the amendments may be more efficient in facilitating the procurement of NCSs (where required), which will assist in ensuring the reliable supply of electricity.

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

Costs:

There may be some costs associated with:

- removing the settlement calculations from the Settlement Systems operated by the IMO; and
- amending the relevant MPI elements from the IT Systems.

Benefits: Allowing a Network Operator to manage its own risks regarding contracting for an NCS, and removal of a potential cross subsidy relating to energy payments for NCSs.

Appendix 1: Clean version of Chapter 5

5 Network Control Services

Network Control Service Process

5.1. Definitions

- 5.1.1. A Network Control Service is a service provided by distributed generation or demand side management that can be a substitute for transmission or distribution network upgrades.
- 5.1.2. A Network Control Service Contract is a contract between a Network Operator and a Market Participant for the Market Participant to provide a Network Control Service.

5.2 [Blank]

5.2A Registration and Certification

- 5.2A.1. Where a Market Participant enters into a Network Control Service Contract for a Facility, the Market Participant must ensure that the Facility is registered as a Registered Facility during the period for which Network Control Services are to be provided under the Network Control Service Contract.
- 5.2A.2. Where a Market Participant enters into a Network Control Service Contract for a Facility then the Market Participant must apply to the IMO for Certified Reserve Capacity in respect of the Facility, in respect of each Reserve Capacity Cycle that the Facility would be eligible to participate in over the period for which Network Control Services will be provided under the relevant Network Control Service Contract.

5.3 [Blank]

5.3A Information required from the Network Operator

- 5.3A.1. When a Network Operator has entered into a Network Control Service Contract with a Market Participant, the Network Operator must as soon as practicable and not less than 20 Business Days prior to a Network Control Service Contract taking effect, provide the IMO with:
- (a) the identity of the Market Participant;
 - (b) the identity of the Facility providing the service;
 - (c) a unique identifier for the Network Control Service Contract;
 - (d) the period over which the services are to be provided by the Network Control Service Contract; and

- (e) whether the Network Control Service Contract requires that the Facility not be part of an aggregated Facility.
- 5.3A.2 When any change occurs to the details of a Network Control Service Contract listed in clause 5.3A.1 the Network Operator must inform the IMO as soon as practicable.
- 5.3A.3. When a Network Operator has entered into a Network Control Service Contract with a Market Participant, the Network Operator must provide System Management with the details of the Network Control Services Contract to enable System Management to dispatch the services provided under it.
- 5.3A.4 When any change occurs to the details of a Network Control Service Contract provided to System Management under clause 5.3A.3 the Network Operator must inform System Management as soon as practicable.
- 5.4 [Blank]**
- 5.5 [Blank]**
- 5.6 [Blank]**
- 5.7. Network Control Service Dispatch**
- 5.7.1 [Blank]
- 5.7.2. System Management may call upon the relevant Facility to provide services under a Network Control Services Contract in accordance with the terms of the contract, as advised to it by the Network Operator in accordance with clause 5.3A.3 and amended in accordance with clause 5.3A.4.

Settlement Data

- 5.8 [Blank]**
- 5.9. Settlement Data**
- 5.9.1. The IMO must provide the following information to the settlement system:
 - (a) [Blank]
 - (b) for each Network Control Service Contract energy payment:
 - i. [Blank]
 - ii. the Market Participant to which the payment will be made.



- 5.9.2. The IMO must provide Network Operators with details of any quantities dispatched under their Network Control Service Contracts in a Trading Month by 5:00 PM on the Invoicing Date for Non-STEM Settlement Statements for that Trading Month.
- 5.9.3 The information provided by the IMO to a Network Operator under clause 5.9.2 must include, for each relevant Facility and Trading Interval:
- (a) the unique identifier of the Network Control Service Contract under which the Dispatch Instruction was issued;
 - (b) the MWh quantity by which the Facility was instructed by System Management to increase its output as specified by System Management in accordance with clause 7.13.1(dB) (Loss Factor adjusted to the Reference Node) or reduce its consumption as specified by System Management in accordance with clause 7.13.1(dB);
 - (c) the per MWh price paid by the IMO for the quantity dispatched under the Network Control Service Contract; and
 - (d) the total amount paid by the IMO to the Market Participant for the quantity dispatched under the Network Control Service Contract.

Agenda Item 5c: Updates to Pre Rule Change Discussion Paper PRC_2010_14

1. BACKGROUND

The IMO presented the Pre Rule Change Discussion Paper PRC_2010_14, which proposes changes to the Market Rules relating to the certification of Reserve Capacity (CRC), at the 8 September 2010 MAC meeting.

The MAC proposed the following actions:

- The IMO to consult with industry members about the value they obtain from the Statement of Opportunities (SOO) and their preferences with regards to content and timing;
- The IMO to amend the timing for provision of Reserve Capacity Security for capacity to be traded bilaterally to 10 Business Days;
- The IMO to review the use of the term “valid” in the Pre Rule Change Proposal; and
- The IMO to modify its Certification of Reserve Capacity Rule Change Proposal (PRC_2010_14) to reflect the outcomes of its consultation with industry on the SOO and the other matters raised by the MAC, and present the updated proposal to the MAC.

2. CONSULTATION WITH INDUSTRY MEMBERS

As requested by the MAC, the IMO consulted widely with industry members in relation to the content and preferred timing of the SOO. The following comments were made:

- Two Market Participants indicated that the SOO should be published prior to the closure of the window to allow informed decisions about the quantity of capacity that is submitted in the immediate certification cycle. One of these Participants specified that it would prefer to have at least two weeks from the date of publication of the SOO and the closure of the application window for certification.
- Two Market Participants suggested that the SOO should be published prior to the closure of the certification window to ensure that the IMO's resources are available to assist Market Participants with their applications for CRC.
- One Market Participant suggested that the SOO would be of benefit to their organisation at the start of the year to assist with the mid-financial year review. However, the Market Participant acknowledged that the most recent summer data is required to optimise forecast accuracy, limiting the flexibility in publication timing.
- Several Market Participants indicated that the current timeline means that the SOO is irrelevant for their applications for the immediate certification cycle as it is impossible to develop a committed project in the three-week period between the publication of the SOO and the closure of the certification window.



- One of these Participants preferred publication in January to better align with project development timeframes, while acknowledging that the summer load data is not yet available for updating forecasts.
- One of these Participants preferred publication in April.
- Two Participants suggested that the SOO was more relevant for the following year's certification cycle, with one of these preferring publication later in the year. These Market Participants acknowledged the need for the SOO to include the most recent information.

Industry members requested that the SOO include the following additional information:

- One Market Participant requested a list of references to key elements of legislation, the Market Rules and other key documents of relevance for project developers.
- One Market Participant requested that the IMO publish details of the new large loads that were included in the load forecasts. This would assist with the development of the organisation's budgets, enabling adjustments for any expected deviation from the forecasts. The IMO is not currently able to publish this information.
- One project developer was keen to see a comparison of indicative costs of different technologies, noting the caveats that would be required for such information. This developer also indicated that it would see value in expanding the SOO to cover all of Western Australia.
- One Market Participant expressed interest in seeing the Generation Connection Capacity Map extended beyond the metropolitan area.

A key role of the SOO is to publish the Reserve Capacity Requirement, which is necessary for the IMO to determine whether the Reserve Capacity Auction is required. The Reserve Capacity Requirement is based upon the peak demand and energy consumption forecasts. The IMO considers it important that this determination is based upon the most up-to-date forecasts, taking into account the observed load behaviour from the most recent Hot Season (ending on 31 March each year).

The IMO is continuing to explore the possibility of publishing the SOO earlier than the current date of 1 July. The IMO has consulted with its forecasting contractor, which has confirmed that the March load information is important for the forecasting results. Interestingly, the peak demand has occurred in March in five of the last 11 summers, highlighting this importance. In addition, the forecasting contractor has advised that it is not feasible to commence electricity forecasts until after the economic growth forecasts are revised in late March or early April, following the publication of the year end National Accounts in early March. Consequently, the peak demand and energy forecasts could not be delivered before May.

The table below shows the critical path tasks from the end of the Hot Season on 1 April and the publication of the SOO, along with approximate time requirements:



Task	Parties involved	Approx time required
Gather required data, package and send to forecaster	IMO, Synergy, System Management	2-3 weeks
Peak demand and energy forecasts	Forecaster	3 weeks
Check forecasts, package and send data for reliability analysis	IMO	0.5-1 week
Reliability analysis	Reliability analysis contractor	2-3 weeks
Review of analysis, review and finalisation of SOO	IMO	1-2 weeks

Having reviewed the current timeline and the comments provided by industry members, the IMO proposes to bring the publication deadline for the SOO forward to 17 June (currently 1 July), being two weeks prior to the closure of applications for Certified Reserve Capacity. The IMO will continue to explore options to enable earlier publication of the SOO.

3. TIMING FOR PROVISION OF RESERVE CAPACITY SECURITY

The Pre Rule Change Discussion Paper PRC_2010_14 presented at the previous MAC meeting proposed that the time be increased between the IMO confirming the Certified Reserve Capacity for each Facility and the deadline for provision of Reserve Capacity Security. The Market Rules currently allow as few as three Business Days between these events, whereas the IMO proposed increasing this to five Business Days. The MAC recommended that this be increased further to ten Business Days.

The IMO acknowledges the advantages in increasing the time available for submission of Reserve Capacity Security. The IMO notes that it continues to assess applications for Committed status for new Facilities during this time. Consequently, the IMO has revised the proposal to notify applicants of their Certified Reserve Capacity one week earlier than previously proposed, on 19 August.

4. REVIEW OF “VALID” APPLICATION

The IMO has reviewed the wording in the proposal as requested by the MAC. The word “valid” has been removed from the proposed changes in sections 4.10 and 4.11. The proposed changes now make reference to “an application for Certified Reserve Capacity ... in accordance with section 4.10”. The IMO considers that the revised wording is sufficient to enforce compliance with the application requirements outlined in clause 4.10.1.

5. RECOMMENDATIONS

It is recommended that the MAC:

- **Note** this paper; and
- **Discuss** the revisions to the Reserve Capacity Cycle timeline proposed in the paper.

Agenda item 5c, appendix 1:

Wholesale Electricity Market Pre Rule Change Discussion Paper

Change Proposal No: PRC_2010_14
Received date:

Change requested by

Name:	Greg Ruthven
Phone:	(08) 9254 4301
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Email:	greg.ruthven@imowa.com.au
Organisation:	IMO
Address:	Level 3, Governor Stirling Tower, 197 St George's Terrace
Date submitted:	TBA
Urgency:	Standard Rule Change Process
Change Proposal title:	Certification of Reserve Capacity
Market Rule affected:	4.1.12, 4.1.13, 4.1.14, 4.1.16, 4.1.17, 4.1.20, 4.1.21, (new) 4.1.21A, 4.2.7, 4.4.1, 4.9.5, 4.9.9, (new) 4.9.9A, 4.10.1, 4.10.2, 4.10.3. (new) 4.10.4, 4.11.1, 4.11.2, 4.11.3A, 4.1.5, (new) 4.11.10, 4.15.1, 4.20.1, 4.20.5A, 4.27.10, 4.27.11A, 4.28C.1, 4.28C.2, 10.5.1 and the glossary.

Introduction

Clause 2.5.1 of the Wholesale Electricity Market Rules (Market Rules) provides that any person (including the Independent Market Operator (IMO)) may make a Rule Change Proposal by submitting a completed Rule Change Proposal form to the IMO.

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

Independent Market Operator

Attn: Manager Market Development and System Capacity
PO Box 7096
Cloisters Square, Perth, WA 6850

Fax: (08) 9254 4339

Email: market.development@imowa.com.au

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

In order for the proposal to be progressed, all fields below must be completed and the 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.

Details of the proposed Market Rule Change

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

Background

The reliability of the South West interconnect system (SWIS) depends on generators and Demand Side Management providers delivering the capacity that they have offered. Each year, all Facilities wanting to apply for Capacity Credits in the Reserve Capacity Mechanism must apply for certification of Reserve Capacity. The certification process is designed to ensure that a facility assigned Capacity Credits can meet its obligations and provide the capacity when it is required. The IMO undertakes a process of certification thorough which it satisfies itself that, among other things:

- the facility will be able to deliver the quantity of capacity that is being offered; and
- if the facility is yet to enter service, that it will be able to supply power into the SWIS by the date claimed.

In applying for certification, developers need to provide information such as:

- Details of their facility's capacity and temperature dependence.
- Information on fuel supply.
- Projected maintenance outage rates.

- Key project dates for new facilities.

The process of certification takes place between mid-July and early August each year.

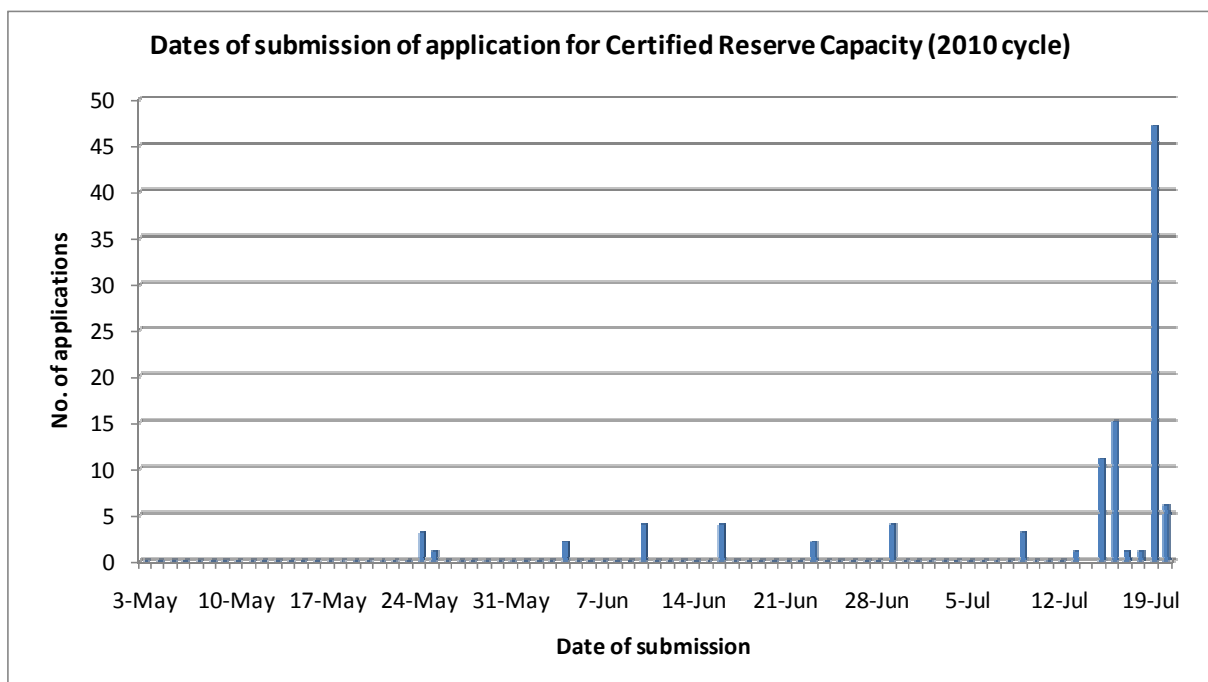
Issues

The IMO has identified a number of issues with the Market Rules surrounding certification of Reserve Capacity as part of its ongoing review of the Market Rules and during the recently completed certification process. These are explained in further detail below.

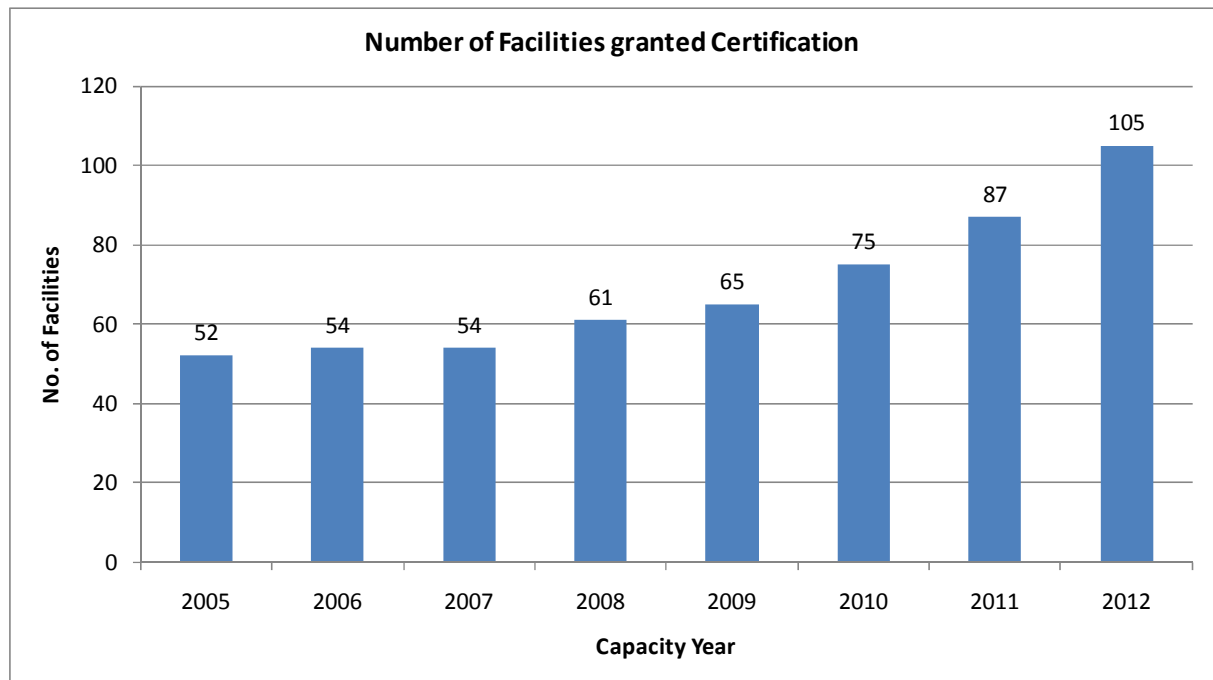
Issue 1: Reserve Capacity Mechanism timeline

The IMO has identified opportunities to improve the Reserve Capacity Mechanism timeline.

Applications for certification of Reserve Capacity close on the last business day falling on, or before, 20 July in each year. The IMO then has 12 business days until the deadline for confirming Certified Reserve Capacity on the last business day on, or before, 5 August. Although the window for submission of applications is open for approximately 11 weeks, the majority of applications are submitted in the last days before the deadline. This is demonstrated in the graph below that shows the timing of submissions for the 2010 certification process.



The number of certified Facilities has doubled since market start, as shown in the graph below. This, along with the fact that the majority of applications for certification are submitted close to the deadline, has placed increasing strain on the IMO's ability to process the applications within the current timeline. The timeliness of information for Market Participants could be improved by increasing the time available for review of applications.



The IMO has also observed that the short time available for Market Participants with new Facilities to provide Reserve Capacity Security has proven difficult. Where a Market Participant intends to bilaterally trade its capacity, the Reserve Capacity Security must be provided by the last business day on, or before, 10 August. This may only allow 3 business days after the Market Participant has received confirmation of Certified Reserve Capacity. The IMO proposes to increase the time available for delivery of Reserve Capacity Security

In addition, the Market Rules do not explicitly indicate the time at which Capacity Credits are assigned to Facilities. It can be implied from clauses 4.1.20 and 4.1.21 of the Market Rules that this allocation occurs at some time between 20 December and 23 December after Market Participants confirm how many Capacity Credits each Facility will provide. This mechanism allows a Participant to transfer Capacity Credits from a Facility that has been cleared in the Reserve Capacity Auction to another that was not cleared. This could happen sooner after the auction results are published. The IMO proposes that this mechanism, which is currently required under all circumstances, should not be required when the Reserve Capacity Auction is cancelled.

Proposed Solution

The IMO proposes that:

- the Market Rules be updated to explicitly state that Capacity Credits are assigned either:
 - at the time that the Reserve Capacity Auction is cancelled; or
 - after Market Participants have confirmed the number of Capacity Credits that each Facility will provide (clauses (new) 4.1.16, (new) 4.1.21A, 4.15.1, 4.20.1, 4.20.5A and 4.27.10).
- some of the Reserve Capacity Cycle dates be modified as shown in the table below.

	Description of event	Current date	Proposed date	Clause
1	IMO publishes the Statement of Opportunities and releases the Reserve Capacity Information Pack	1 July	17 June	4.1.8 and 4.1.9
2	IMO publishes Reserve Capacity Information Pack on website	15 July	24 June	4.1.10
3	IMO ceases to accept lodgement of applications for certification of Reserve Capacity	20 July	1 July	4.1.11
4	IMO notifies applicants of Certified Reserve Capacity	5 August	19 August	4.1.12
5	Participants provide Reserve Capacity Security for capacity to be traded bilaterally	10 August	2 September	4.1.13
6	Participants make Bilateral Trade Declaration	10 August	2 September	4.1.14
7	IMO confirms the amount of capacity that can be traded bilaterally	1 business day after (3)	1 business day after (3)	4.1.15
8	IMO advises whether Reserve Capacity Auction is required	18 August	2 business days after (3)	4.1.16
9	If no auction required, assign Capacity Credits	Not explicit	2 business days after (3)	4.1.16
10	Reserve Capacity Auction submission window opens	20 August	3 business days after (3)	4.1.17(a)
11	Reserve Capacity Auction submission window closes	29 August	14 September	4.1.17(b)
12	Participants provide Reserve Capacity Security for capacity offered into Reserve Capacity Auction	27 August	14 September	4.1.13
13	IMO runs the Reserve Capacity Auction and publishes results	1 September	15 September	4.1.18
14	Participants who had capacity scheduled in the Reserve Capacity Auction confirm how many Capacity Credits each Facility will provide and whether Special Price Arrangements will be accepted	20 December	21 September	4.1.20
15	Where applicable, IMO notifies Participants that Reserve Capacity Security is no longer required, or returns cash deposits; IMO confirms Capacity Credits if auction held	23 December	24 September	4.1.21
16	If Reserve Capacity Auction held, assign Capacity Credits	Not in current rules	24 September	(new) 4.1.21A

Issue 2: Requirement for compliant application to be submitted for Certified Reserve Capacity

In discussing the assignment of Certified Reserve Capacity, the Market Rules makes reference to “the application” and “applicant”. This section does not specifically refer to the application for Certified Reserve Capacity, nor does it require compliance with the requirements of section 4.10. Also, the Market Rules do not explicitly state that the application should include evidence to support the information provided in accordance with section 4.10.

Proposed Solution

The IMO proposes to update the Market Rules to specifically require Market Participants to provide an application for Certified Reserve Capacity in compliance with section 4.10 and to provide supporting evidence for the information provided in the application (clauses 4.11.1 and 4.11.2).

Issue 3: Clarification of Required Availability

The Market Rules currently require the IMO to assess the level of capacity “likely to be available ... at daily peak demand times” (clause 4.11.1(a)) in assessing an application for Certified Reserve Capacity. The IMO considers that this statement requires further clarification in the Market Rules.

- There is ambiguity in the Market Rules around the ability to award Capacity Credits to a Non-Scheduled Generator according to the methodology described in clause 4.11.1(a). A key component of the Reserve Capacity Target is the reserve margin, which allows for the unexpected unavailability of one or more generators on the SWIS. A Non-Scheduled Generator, unable to be directed by System Management to increase its output in the event of Forced Outages, cannot contribute to the reserve margin and thus cannot be expected to be available at “peak demand times”. Such a Facility should, therefore, only be eligible for certification under the methodology typically used for Intermittent Generators, as described in clause 4.11.2(b). This methodology currently considers average output during the previous three years.
- The requirement for a peaking plant to have sufficient fuel to support operation for 14 hours each day for 10 months of the year is extremely onerous and could result in Market Participants incurring unnecessary additional costs. It is unlikely that peaking plants will be required to operate at this level so it would be reasonable to clarify the availability requirement to refer to Peak Trading Intervals on Business Days, particularly given that system demand is typically lower on weekends and public holidays.
- The Market Rules state that in order for a Facility to be certified as dual fuel it must have sufficient supply and/or supply of the back-up fuel to maintain 12 hours of operation. However, the Market Rules do not state the required level of operation.

Proposed Solution

The IMO proposes to:

- stipulate that a Facility must be able to dispatched by System Management in order to be certified according to the methodology described in clause 4.11.1(a);
- clarify the requirement in clause 4.11.1(a) for Facilities to be “likely to be available ... for Peak Trading Intervals on Business Days” to clarify the fuel requirements; and

- clarify in clause 4.10.2 that dual-fuelled Facilities must be able to operate for 12 hours at the requested level of Certified Reserve Capacity.

Issue 4: Transmission access requirements

In order to grant Certified Reserve Capacity to a Facility, the IMO reviews the arrangements for the Facility to gain transmission access. The Market Rules refer to an “Access Offer”, which is inconsistent with the Access Proposals issued by Western Power. The Access Offer, or Electricity Transfer Access Contract (ETAC) is rarely issued sufficiently in advance to be able to be reviewed at the time when a Facility is first certified.

Proposed Solution

The IMO proposes to replace the phrase “Access Offer” with “Access Proposal” in the Market Rules. This aligns the Rules with the terminology used by Western Power (clauses 4.2.7, 4.4.1, 4.10.1 and the Glossary).

Issue 5: Widen requirement for provision of environmental and transmission access approvals

Clause 4.10.1(c) of the Market Rules requires that applicants for Certified Reserve Capacity must provide evidence of transmission access and environmental approvals for Facilities that have yet to enter service. Environmental approvals and ETACs typically have expiry dates, so it is reasonable for the IMO to review these approvals for all Facilities as part of its assessment for Certification of Reserve Capacity. By widening this requirement to all Facilities, the IMO will be able to confirm the ongoing validity of these approvals.

In addition, some Access Proposals or ETACs incorporate Run-Back Schemes that may inhibit the availability of a Facility during peak demand times. The Market Rules do not currently consider these arrangements, nor do they provide any link between the level of access and the level of Certified Reserve Capacity.

Proposed Solution

The IMO proposes to require that evidence of transmission access and environmental approval be provided for all Facilities (clause 4.10.1). The IMO also proposes to require that Market Participants provide information about any network constraints that may impact the availability of the capacity of the Facility (clauses 4.11.1 and 4.11.5).

Issue 6: Clarification around Intermittent and other Non-Scheduled Generators

Applications for Certified Reserve Capacity for Intermittent Generators that have yet to enter service must include a report prepared by an accredited expert. The use of the expert report requires clarification in the Market Rules.

- The Market Rules state that the IMO “must” use the expert report provided for the Facility, even when the information contained in the expert report is potentially invalid.
- The Market Rules currently imply that a Participant must produce a new report each year that will estimate the Facility output over the preceding three years. Given that the report

is unlikely to vary significantly from previous versions, this may require additional, unnecessary cost to the Market Participant.

- The Market Rules do not currently require the provision of an expert report for an in-service Facility that has not yet operated for the full period of performance assessment. In this scenario, the Market Rules state that the IMO must estimate the Facility output for the remainder of the assessment period but do not necessarily require the use of the expert report in this case.

Proposed Solution

The IMO proposes to amend the Market Rules to:

- allow the IMO to reject the expert report if it reasonably believes it to be inaccurate (clause 4.11.3A);
- stipulate that the same expert report can be provided by the Market Participant until the Facility has operated for the full period of performance assessment (clause 4.10.3);
- stipulate that the expert report must also be provided for an in-service Facility that has not yet operated for the full period of performance assessment (clause 4.10.3); and
- remove unnecessary duplication in the Rules that discuss the expert report, predominantly by removing the text in 4.11.1(d) and (e).

Issue 7: Transmission or other network constraints

Where a Facility is subject to a Network Control Services contract, the Market Rules currently direct the IMO to assign Capacity Credits to the Facility with regard to any transmission constraints that are likely to occur (clause 4.11.1 (g)). The IMO Procedure Change and Development Working Group identified that this definition is too narrow and considered that this needs to be broadened to refer to network constraints¹.

Proposed Solution

The IMO proposes to replace the phrase “transmission constraints” with “network constraints” in the Market Rules (clause 4.11.1).

Issue 8: Erroneous references to “Registered Facilities”

Section 4.28C of the Market Rules, covering the Early Certification of Reserve Capacity, contains erroneous references to Registered Facilities. New Facilities may not be registered at the time that an application for certification of Reserve Capacity is submitted.

Proposed Solution

The IMO proposes to correct the erroneous references to Registered Facilities contained in section 4.28C.

Issue 9: Provision of calculations on which the IMO’s assessment is based

¹ See minutes from Meeting #5, 22 April 2010, page 7

The IMO is currently required to provide each Market Participant with the “calculations upon which the IMO’s determinations are based” when advising the Participant of the amount of Certified Reserve Capacity being assigned to each Facility (clause 4.9.9(e)). Given the large number of Facilities, this is an onerous requirement for the IMO.

Proposed Solution

The IMO proposes to amend the Market Rules to state that the IMO must provide these calculations when requested to do so by a Market Participant (clause 4.9.9(e)).

Issue 10: Publication of Certified Reserve Capacity information by Facility

The IMO is currently permitted to publish Capacity Credit information by Facility. One Market Participant has suggested that the IMO could similarly publish the quantity of Certified Reserve Capacity assigned to each Facility prior to the Bilateral Trade Declaration process.

The publication of such information could assist Participants in assessing whether to withdraw some Certified Reserve Capacity in an over-supply scenario. Such a result could reduce the number of Capacity Credits awarded through market forces and thus lower the total cost of capacity in the market. There may be a risk that the publication of this data could encourage Participants to force a Reserve Capacity Auction, and potentially a higher Reserve Capacity Price, if the level of Certified Reserve Capacity matches, or fails to reach, the Reserve Capacity Requirement.

Proposed Solution

The IMO proposes to publish of the quantity of Certified Reserve Capacity assigned to each Facility on the same day that each Market Participant is notified of its Certified Reserve Capacity (clauses 4.4.9A and 10.5.1).

Issue 11: Changes to Facility design after Capacity Credits awarded OR Maintenance of data provided for Certification of Reserve Capacity

The Market Rules are currently silent on the subject of changes to a Facility after it has been awarded Certified Reserve Capacity and do not preclude changes to the Facility details from the time it is assigned Capacity Credits. Changes to the design of a Facility may be such that the IMO should reassess the Facility to confirm that the change would not have prevented the IMO from assigning Certified Reserve Capacity. Such a reassessment would require the payment of an Application Fee to the IMO, similar to the requirements for applications for conditional certification or subsequent Early Certified Reserve Capacity.

Proposed Solution

The IMO proposes that Market Participants should provide a summary of the main components of the Facility in their application for Certified Reserve Capacity (clause 4.10.1). The IMO also proposes that Market Participants be obliged to advise the IMO of any changes to the information provided in applications for Certified Reserve Capacity (new clause 4.10.4).

The IMO would then review the changes and determine whether it would need to reassess the Facility to determine whether it still meets the requirements or Certified Reserve Capacity (new clause 4.11.10). The Market Participant will pay a fee to the IMO for this reassessment (clause 4.9.3(c)).

Issue 12: Repeated rejection of progress reports by IMO

Once Capacity Credits are assigned to a new Facility for the first time, the Market Participants must provide 3-monthly progress reports from the date that the assignment of Capacity Credits is confirmed until the start of the calendar year in which the Facility was initially scheduled to commence operation. The Market Participant must then provide monthly progress reports until the project commences operation. The progress report may include a revised nomination for the date that Facility is scheduled to be able to fully meet its Reserve Capacity Obligations.

Clause 4.27.11A of the Market Rules requires that the IMO “must not approve a nomination for a date which would have prevented the IMO from assigning Certified Reserve Capacity to a Facility” and must advise the Market Participant within 10 business days of its decision to reject the nomination and the reason for doing so. In the event that a project is delayed and the completion date is pushed beyond the 4-month window in which Reserve Capacity Obligations can commence, this clause forces the IMO to reject every subsequent progress report and to repeatedly notify the Market Participant of this rejection. As the window for the commencement of Reserve Capacity Obligations is stated clearly in clause 4.1.26 of the Market Rules, this repeated rejection of the nomination is not informative for Market Participants and unnecessarily increases the workload of the IMO.

Proposed Solution

The IMO proposes to clarify clause 4.27.11A to state that the IMO only needs to approve or reject a nomination if it would result in a change to the date from which Reserve Capacity Obligations would commence.

2. Explain the reason for the degree of urgency:

The IMO proposes that this Rule Change Proposal be progressed through 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 ~~strikethrough~~ where words are deleted and underline words added)

The proposed changes to the Market Rules to implement each of the proposed solutions identified are provided below.

The following changes will amend the Reserve Capacity Cycle timeline and clarify the timing of the assignment of Capacity Credits to Facilities, as proposed in the discussion of Issue 1.

- 4.1.8. The IMO must publish a Statement of Opportunities Report produced in accordance with the Long Term PASA process described in clause 4.5.11 by 5 PM of the first Business Day falling on or following 17 June ~~1 July~~ of Year 1 of the relevant Reserve Capacity Cycle.
- 4.1.9. The IMO must release the Reserve Capacity Information Pack in accordance with clause 4.7.1 by 5 PM of the first Business Day falling on or following 17 June ~~1 July~~ of Year 1 of the relevant Reserve Capacity Cycle.
- 4.1.10. The IMO must publish on the Market Web Site the Reserve Capacity Information Pack in accordance with clause 4.7.2 by 5 PM of the first Business Day falling on or following 24 June ~~1 July~~ of Year 1 of the relevant Reserve Capacity Cycle.
- 4.1.11. The IMO must cease to accept lodgement of applications for certification of Reserve Capacity for the Reserve Capacity Cycle in accordance with clause 4.9.1 from 5 PM of the last Business Day falling on or before:
- (a) 20 July of Year 1 of the Reserve Capacity Cycle for Reserve Capacity Cycles up to and including 2010; and
 - (b) 1 July of Year 1 for Reserve Capacity Cycles from 2011 onwards.
- 4.1.12. The IMO must notify each applicant for certification of Reserve Capacity of the Certified Reserve Capacity to be assigned by 5 PM of the last Business Day on, or before:
- (a) 5 August of Year 1 of the Reserve Capacity Cycle for Reserve Capacity Cycles up to and including 2010; and
 - (b) 19 August of Year 1 for Reserve Capacity Cycles from 2011 onwards.
- 4.1.13. Each Market Participant must provide to the IMO any Reserve Capacity Security ~~(in full)~~ required in accordance with clause 4.13.1 not later than 5 PM of the last Business Day falling on or before:
- (a) for Reserve Capacity Cycles up to and including 2010: 10 August of Year 1 of the relevant Reserve Capacity Cycle if any of the Facility's Certified Reserve Capacity is specified to be traded bilaterally in accordance with clause 4.14.1(c); or
 - (i) 10 August of Year 1 of the relevant Reserve Capacity Cycle if any of the Facility's Certified Reserve Capacity is specified to be traded bilaterally in accordance with clause 4.14.1(c); or
 - (ii) 29 August of Year 1 of the relevant Reserve Capacity Cycle if any of the Facility's Certified Reserve Capacity is specified to be offered into the Reserve Capacity Auction in accordance with clause 4.14.1(a) and

where none of the Facility's Certified Reserve Capacity is specified to be traded bilaterally in accordance with clause 4.14.1(c).

- (b) for Reserve Capacity Cycles from 2011 onwards: 29 August of Year 1 of the relevant Reserve Capacity Cycle if any of the Facility's Certified Reserve Capacity is specified to be offered into the Reserve Capacity Auction in accordance with clause 4.14.1(a) and where none of the Facility's Certified Reserve Capacity is specified to be traded bilaterally in accordance with clause 4.14.1(c).

- (i) 2 September of Year 1 of the relevant Reserve Capacity Cycle if any of the Facility's Certified Reserve Capacity is specified to be traded bilaterally in accordance with clause 4.14.1(c); or

- (ii) 14 September of Year 1 of the relevant Reserve Capacity Cycle if any of the Facility's Certified Reserve Capacity is specified to be offered into the Reserve Capacity Auction in accordance with clause 4.14.1(a) and where none of the Facility's Certified Reserve Capacity is specified to be traded bilaterally in accordance with clause 4.14.1(c).

4.1.14. Each Market Participant holding Certified Reserve Capacity for the Reserve Capacity Cycle must provide to the IMO notification in accordance with clause 4.14.1 as to how much of its Certified Reserve Capacity will be traded bilaterally and how much will be offered to the IMO in the Reserve Capacity Auction held in Year 1 of the relevant Reserve Capacity Cycle not later than 5 PM of the last Business Day falling on or before:

- (a) 9 September 2005, in the case of the first Reserve Capacity Cycle; ~~and~~
- (b) 10 August of Year 1, in the case of subsequent Reserve Capacity Cycles up to and including 2010; and
- (c) 2 September of Year 1, in the case of Reserve Capacity Cycles from 2011 onwards.

4.1.16. The IMO must publish the information required by clauses 4.15.1 and 4.15.2 pertaining to whether or not a Reserve Capacity Auction is required by 5 PM of the last Business Day falling on or before:

- (a) 16 September 2005, in the case of the first Reserve Capacity Cycle; ~~and~~
- (b) 18 August of Year 1, in the case of subsequent Reserve Capacity Cycles up to and including 2010; and
- (c) the first Business Day following the confirmation deadline specified in clause 4.1.15, in the case of Reserve Capacity Cycles from 2011 onwards.

If the Reserve Capacity Auction is cancelled, the IMO will assign Capacity Credits on the same day in accordance with clause 4.15.1.

- 4.1.17. If a Reserve Capacity Auction proceeds, then the IMO must accept submission of Reserve Capacity Offers from Market Participants in accordance with clause 4.17.2:
- (a) from 9 AM of the first Business Day falling on or following:
 - i. 20 September 2005 of Year 1, in the case of the first Reserve Capacity Cycle; ~~and~~
 - ii. 20 August of Year 1, in the case of subsequent Reserve Capacity Cycles up to and including 2010; and
 - iii. the second Business Day following the confirmation deadline specified in clause 4.1.15, in the case of Reserve Capacity Cycles from 2011 onwards.
 - (b) until 5 PM of the last Business Day falling on or before:
 - i. 29 September 2005, in the case of the first Reserve Capacity Cycle; and
 - ii. 29 August of Year 1, in the case of subsequent Reserve Capacity Cycles up to and including 2010; and
 - iii. 14 September of Year 1, in the case of Reserve Capacity Cycles from 2011 onwards.
- 4.1.18. If a Reserve Capacity Auction proceeds, then the IMO must
- (a) run the Reserve Capacity Auction on the first Business Day falling on or following:
 - i. 3 October of 2005, in the case of the first Reserve Capacity Cycle; ~~and~~
 - ii. 1 September of Year 1, in the case of subsequent Reserve Capacity Cycles up to and including 2010; and
 - iii. 15 September of Year 1, in the case of Reserve Capacity Cycles from 2011 onwards; and
 - (b) must publish the results in accordance with clause 4.19.5 by 5 PM of that day.
- 4.1.20. Each Market Participant holding Certified Reserve Capacity ~~to be traded bilaterally or~~ which has been scheduled by the IMO in a Reserve Capacity Auction must provide to the IMO:
- (a) notification, in accordance with clause 4.20, of how many Capacity Credits each Facility will provide; and

- (b) notification of any Long Term Special Price Arrangements to be accepted in accordance with clause 4.22,

not later than 5 PM of the last Business Day falling on or before 21 September 20
~~December~~ of Year 1 of the relevant Reserve Capacity Cycle.

- 4.1.21. Not later than 5 PM of the last Business Day falling on or before 24 September 23
~~December~~ of Year 1 of a Reserve Capacity Cycle, the IMO must, in accordance with clause 4.13.10:

- (a) notify a Market Participant that has provided a Reserve Capacity Security for a Facility that the Reserve Capacity Security is no longer required; and
- (b) return any Reserve Capacity Security which was provided in the form of a cash deposit,

in the event that the Market Participant does not hold Capacity Credits for the Facility to which the Reserve Capacity Security relates in the relevant Reserve Capacity Cycle.

- 4.1.21A. Not later than 5 PM of the last Business Day falling on or before 24 September of Year 1 of a Reserve Capacity Cycle, the IMO must, in the event that a Reserve Capacity Auction was required, assign Capacity Credits in accordance with clause 4.20.5A.

The following changes will change the phrase “Access Offer(s)” to “Access Proposals” as proposed in the discussion of Issue 4.

- 4.2.7. By the date and time specified in clause 4.1.6, the IMO must publish the following information:
 - (a) the number of Expression of Interests received;
 - (b) based on the Expression of Interests, the additional Reserve Capacity potentially available, categorised as:
 - i. capacity associated with Facilities that are committed; and
 - ii. capacity associated with Facilities that are not yet committed, where this capacity is to be further categorised between new Facilities for which:
 - 1. an offer by the relevant Network Operator to enter into an Arrangement for Access (“**Access Proposal-Offer**”) has been made and all necessary Environmental Approvals granted;

2. applications for both Access Proposals ~~Offers~~ and Environmental Approvals have been made and one or both are being processed;
3. no Access Proposal ~~Offer~~ has been applied for or some or all Environmental Approvals have not been applied for;
- ...

4.4.1. An Expression of Interest for a Reserve Capacity Cycle must include the following information:

...

(d) for each Facility:

...

- ii. the status of any applications for Access Proposals ~~Offers~~ in respect of that Facility;

...

The following amendment adds the requirement for payment of an Application Fee where a Market Participant changes the details of a Facility, requiring reassessment against the requirements for Certified Reserve Capacity. This is proposed in the discussion of Issue 11.

4.9.3. A Market Participant applying for certification of Reserve Capacity must provide to the IMO:

...Ourd

- (c) in the case of an application for conditional certification for a future Reserve Capacity Cycle, a reassessment of the assignment of Certified Reserve Capacity under clause 4.11.10, or subsequent applications for Early Certified Reserve Capacity for a Facility for the same Reserve Capacity Cycle, an Application Fee to cover the cost of processing the application.

The following amendment updates a reference as a result of the changes proposed in the discussion of Issue 6.

4.9.5. If the IMO assigns Certified Reserve Capacity to a Facility for a future Reserve Capacity Cycle under clause 4.11 ("**Conditional Certified Reserve Capacity**"):

...

- (c) if the IMO is satisfied that the application re-lodged in accordance with paragraph (b) is consistent with the information upon which the Conditional Certified Reserve Capacity was assigned and is correct, then the IMO must confirm:

- i. the Certified Reserve Capacity;
- ii. the Reserve Capacity Obligations Quantity; and
- iii. the Reserve Capacity Security levels,

that were previously conditionally assigned, set or determined by the IMO, subject to the Certified Reserve Capacity for an Intermittent Generator being assigned in accordance with clause 4.11.2(b)~~4.11.1(d) or 4.11.1(e)~~; and

...

The following change will reduce the burden on the IMO in relation to the provision of calculations upon which the determination of Certified Reserve Capacity is based, as proposed in the discussion of Issue 9.

4.9.9. If the IMO assigns Certified Reserve Capacity to a Facility in respect of a Reserve Capacity Cycle, the IMO must advise the applicant:

...

- (e) upon the request of the applicant, the calculations upon which the IMO's determinations are based.

The following change will allow the IMO to publish the level of Certified Reserve Capacity assigned to each Facility, as proposed in the discussion of Issue 10. This information will be classified as public information, clause 10.5.1 will be amended to reflect this.

4.9.9A The IMO must publish, by the date and time specified in clause 4.1.12, the level of Certified Reserve Capacity assigned to each Facility.

The following amendments will:

- (a) change the phrase "Access Contract" to "Access Proposals" (Issue 4);
- (b) widen the requirement to provide transmission access and environmental approvals (Issue 5); and
- (c) require applicants for Certified Reserve Capacity to provide a summary of the main components of their Facilities (Issue 11). It is expected that this requirement will be explained in further detail in the Market Procedure to provide guidance to Market Participants.

4.10.1. The information to be submitted with an application for certification of Reserve Capacity must pertain to the Reserve Capacity Cycle to which the certification relates, must be supported by documented evidence and must include, where applicable, the following information:

- (a) the identity of the Facility;

- (b) the Reserve Capacity Cycle to which the application relates;
- (bA) with the exception of applications for Conditional Certified Reserve Capacity:
 - (i) evidence of an Arrangement for Access or evidence that the Market Participant has accepted an Access Proposal from the relevant Network Operator made in respect of the Facility and that the Facility will be entitled to have access from a specified date occurring prior to the date specified in clause 4.10.1(c)(iii)(7), including the level of unconstrained access and details of any constraints that may apply;
 - (ii) evidence that any necessary Environmental Approvals have been granted or evidence supporting the Market Participant's expectation that any necessary Environmental Approvals will be granted in time to have the Facility meet its Reserve Capacity Obligations by the date specified in clause 4.10.1(c)(iii)(7);
- (c) if the Facility, or part of the facility, is yet to enter service:
 - i. ~~[Blank] with the exception of applications for Conditional Certified Reserve Capacity, a letter from the relevant Network Operator indicating that it has made an Access Proposal Offer in respect of the Facility and that the Facility will be entitled to have access from a specified date occurring prior to the date specified in clause 4.10.1(c)(iii)(7);~~
 - ii. ~~[Blank] with the exception of applications for Conditional Certified Reserve Capacity, evidence that any necessary Environmental Approvals have been granted or evidence supporting the Market Participant's expectation that any necessary Environmental Approvals will be granted in time to have the Facility meet its Reserve Capacity Obligations by the date specified in clause 4.10.1(c)(iii)(7);~~
- ...
- (dA) a description of the main components of the Facility;
- ...

The following change will clarify the required availability for a Facility being assessed according to the methodology described in clause 4.11.1(a), as proposed in the discussion of Issue 3.

- 4.10.2. For the purpose of clause 4.10.1(e)(v), an applicant may not claim that a Facility has an alternative fuel unless the Facility has on-site storage, or uninterrupted

supply of that fuel, sufficient to maintain 12 hours of operation at the level of capacity specified in clause 4.10.1(e)(ii).

The following changes will clarify the use of the expert report for Intermittent Generation Facilities that have yet to enter service in assigning Certified Reserve Capacity, as proposed in the discussion of Issue 6.

4.10.3. An application for certification of Reserve Capacity for an Intermittent Generator that is yet to enter service, or has not operated for the full period of performance assessment under 4.11.2(b), must include a report prepared by an expert accredited by the IMO, in accordance with clause 4.11.6 the Reserve Capacity Procedure, where this report is to be used to assign the Certified Reserve Capacity for that Facility in accordance with clause 4.11.1(e). The report must include estimates of the expected electricity sent out by the Facility for the full period of performance assessment under 4.11.2(b). The applicant may provide the same report until the Facility has been in operation for the full period of performance assessment under clause 4.11.2(b).

The following new clause will require a Market Participants to advise the IMO in the event that any of the details provided in its application for Certified Reserve Capacity have changed, as proposed in the discussion of Issue 11.

4.10.4. Market Participants must advise the IMO if any of the details provided in an application for Certified Reserve Capacity for a Facility, in accordance with this section 4.10, have changed.

The following changes will:

- (a) ensure that the assignment of Certified Reserve Capacity must relate to the submission of an application submitted in accordance with section 4.10 (issue 2);
- (b) clarify the required availability for a Facility being assessed according to the methodology described in clause 4.11.1(a) (issue 3);
- (c) link the level of Certified Reserve Capacity to the unconstrained level of network access (issue 5);
- (d) remove duplication associated with the use of the expert report for Intermittent Generation Facilities that have yet to enter service (issue 6); and
- (e) widen the consideration of transmission constraints to all network constraints in the assessment of Certified Reserve Capacity for a Facility that will be subject to a Network Control Service contract (issue 7).

4.11.1. Subject to clause 4.11.7, the IMO must apply the following principles in assigning a quantity of Certified Reserve Capacity to a Facility for the Reserve Capacity Cycle to for which the an application for Certified Reserve Capacity has been submitted in accordance with section 4.10 relates:

- (a) subject to paragraphs (d) and (e) and clause 4.11.2, the Certified Reserve Capacity for a Facility for a Reserve Capacity Cycle is not to exceed the IMO's reasonable expectation as to the amount of capacity likely to be available and able to be dispatched by System Management from that Facility, after netting off capacity required to serve Intermittent Loads, embedded loads and Parasitic Loads, ~~at daily peak demand times for Peak Trading Intervals on Business Days~~ in the period from the:
- (b) where the Facility is a generation system (other than an Intermittent Generator), the Certified Reserve Capacity must not exceed the sum of the capacities specified in clauses 4.10.1(e)(ii) and 4.10.1(e)(iii), and must not exceed the unconstrained level of network access as provided in 4.10.1(bA);
- ...
- (d) ~~[Blank] the IMO must assign Certified Reserve Capacity for Intermittent Generators that are already operating equal to the Relevant Level determined in accordance with clause 4.11.3A but subject to (b), (c), (f), (g), (h) and (i).~~
- (e) ~~[Blank] the IMO must assign Certified Reserve Capacity to an Intermittent Generator that is yet to commence operation based on:~~
 - i. ~~the Certified Reserve Capacity estimate contained in any report provided by the applicant in accordance with clause 4.10.3, where:~~
 - 1. ~~the report was produced by an expert accredited by the IMO in accordance with clause 4.11.6; and~~
 - 2. ~~the estimate reflects what the expert considers the Certified Reserve Capacity of the Facility would have been for the purposes of clause 4.11.2(b) had a history of performance been available.~~
- ...
- (g) in respect of a Facility that will be subject to a Network Control Service contract, the IMO must not assign Certified Reserve Capacity in excess of the capacity that the IMO believes that Facility can usefully contribute given its location and any ~~transmission~~ network constraints that are likely to occur;
- ...

The following change to section 4.11 will ensure that Certified Reserve Capacity can only be assigned to a Facility for which an application has been submitted in accordance with section 4.10, as proposed in the discussion of Issue 2.

- 4.11.2. Where an applicant submits an application for Certified Reserve Capacity, in accordance with section 4.10, and nominates under clause 4.10.1(i) to have the IMO use the methodology described in clause 4.11.2(b) to apply to a Scheduled Generator or a Non-Scheduled Generator, the IMO:

...

The following amendment will clarify that the IMO can reject the expert report for Intermittent Generation Facilities that have yet to enter service in assigning Certified Reserve Capacity, as proposed in the discussion of Issue 6.

- 4.11.3A. The Relevant Level in respect of a Facility at a point in time is determined by the IMO following these steps:

...

- (c) If the Generator has not entered service, or if it entered service during the period referred to in step (a), estimate the amount of electricity (in MWh) that would have been sent out by the facility, had it been in service, for all Trading Intervals occurring during the period referred to in (a) which are prior to it entering service. The IMO must use the estimates included in the expert report provided in accordance with clause 4.10.3, unless it reasonably believes the report to be inaccurate; and

The following amendment updates a reference in relation to the provision of network access information, in line with the changes proposed in the discussion of Issue 5.

- 4.11.5. In assigning Certified Reserve Capacity to a Facility, the IMO may:

- (a) require Network Operators to confirm that the data and information related to clause 4.10.1 (bA)(e)(i) provided to the IMO by or on behalf of an applicant for Certified Reserve Capacity is complete, accurate and up to date; and

...

The following new clause will require the IMO to review any information relating to a Facility, provided by a Market Participant, which has changed since that Facility was granted Certified Reserve Capacity and will allow the IMO to determine whether the changes require the IMO to reassess the assignment of Certified Reserve Capacity for that Facility, as proposed in the discussion of Issue 11.

- 4.11.10. Upon the receipt of a submission provided in accordance with clause 4.10.4 for a Facility that has already been assigned Capacity Credits for the relevant Capacity Year, the IMO must review the information provided and decide whether it is necessary for the IMO to reassess the assignment of Certified Reserve Capacity to the Facility. If this information would have resulted in the IMO assigning a lower,

non-zero level of Certified Reserve Capacity the IMO must reduce the Capacity Credits assigned to that Facility accordingly and must advise the Market Participant within 90 days of receiving the submission.

The following changes will clarify the timing of the assignment of Capacity Credits to Facilities, as proposed in the discussion of Issue 1.

- 4.15.1. If the information provided under clauses 4.14 and 4.28C indicates that no Certified Reserve Capacity is to be made available in the Reserve Capacity Auction for a Reserve Capacity Cycle, or, based on the information received under clause 4.14, the IMO considers that the Reserve Capacity Requirement for the Reserve Capacity Cycle will be met without an auction, then, by the date and time specified in clause 4.1.16, the IMO must assign Capacity Credits to all Certified Reserve Capacity that is accepted under the methodology in Appendix 3 and must publish a notice specifying for that Reserve Capacity Cycle:

...

(cA) the Capacity Credits assigned, by Facility, under clause 4.28C;

(cB) the Capacity Credits assigned, by Facility;

...

- 4.20.1. Where the Reserve Capacity Auction has been held, each Market Participant must, by the date and time specified in clause 4.1.20, notify the IMO of:
- (a) the total number of Capacity Credits each Facility will provide during the Capacity Year commencing on 1 October of Year 3 of the Reserve Capacity Cycle, subject to paragraph (c); and
 - (b) the number of those Capacity Credits the Market Participant anticipates will be acquired by the IMO ~~has acquired as a result of the Reserve Capacity Auction,~~ subject to paragraph (d);

...

4.20.5A Following the receipt of notifications under clause 4.20.1, the IMO must, by the date and time specified in clause 4.1.21A, assign Capacity Credits to Facilities consistent with the number of Capacity Credits notified by each Market Participant in accordance with clause 4.20.1 and must publish the Capacity Credits assigned, by Facility.

- 4.27.10. Subject to clauses 4.27.11C and 4.27.10A, Market Participants holding Capacity Credits for Facilities that are yet to commence operation must file a report on progress with the IMO at least once every three months from the date the Capacity Credits are ~~is~~ confirmed under clause 4.15.1 or clause 4.20.5A.

The following change will remove the IMO's obligation to repeatedly reject progress reports for a Facility that will commence operation late, as proposed in the discussion of Issue 12.

- 4.27.11A On receiving the report described in clause 4.27.10 or clause 4.27.10A, the IMO must conduct an assessment and approve or not approve the current nominations for each date provided in accordance with clause 4.27.11 where the current nomination differs from the previous nomination and would result in a change to the date from which Reserve Capacity Obligations apply for that Facility. ~~The IMO must not approve a nomination for a date which would have prevented the IMO from assigning Certified Reserve Capacity to a Facility.~~

The following changes will remove the erroneous references to Registered Facilities, as proposed in the discussion of Issue 8.

- 4.28C.1. This section 4.28C is applicable to ~~Registered~~ Facilities to which the following conditions apply:

...

- 4.28C.2 A Market Participant with a ~~Registered~~ Facility that meets the criteria in 4.28C.1 may apply to the IMO, at any time ~~between the date when the Facility was registered under Chapter 2 and before~~ 1 January of Year 1 of the Capacity Cycle to which the application relates, for certification of Capacity and Capacity Credits for that Facility ("Early Certified Reserve Capacity").

The following change will allow the IMO to publish the level of Certified Reserve Capacity assigned to each Facility, as proposed in the discussion of Issue 10.

- 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:

...

- (f) the following Reserve Capacity information (if applicable):

...

- iiiA. for each Market Participant that was assigned Certified Reserve Capacity, the level of Certified Reserve Capacity assigned to each Facility for each Reserve Capacity Cycle;

...

The following changes will change the phrase “Access Contract” to “Access Proposals” as proposed in the discussion of Issue 4.

(In Glossary)

Access Proposal Offer: Has the meaning given in clause 4.2.7(b)(ii)(1).

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

The IMO’s assessment of the impact of each of the discrete proposed changes is presented below:

Issue 1: Reserve Capacity Mechanism Timelines

The IMO considers the proposed changes to the Reserve Capacity Mechanism timeline will be consistent with the Wholesale Market Objectives.

Issue 2: Requirement for compliant application to be submitted for Certified Reserve Capacity

The IMO considers the changes proposed to specifically require Market Participants to provide a compliant application for Certified Reserve Capacity will have the following impact on the Market Objectives:

Impact	Market Objectives
Allow the Market Rules to better address the objective.	a
Consistent with objective.	b, c, d, e
Inconsistent with objective.	

The IMO considers that the proposed amendments will promote the safe and reliable supply of electricity in the SWIS (Market Objective (a)). In particular, the IMO considers that by ensuring certification of facilities is based on a correct and complete application, the capacity requirements of the SWIS will be adequately met.

Issue 3: Clarification of Required Availability

The IMO considers the changes clarifying the required availability will have the following impact on the Market Objectives:

Impact	Market Objectives
Allow the Market Rules to better address the objective.	a, c
Consistent with objective.	b, d, e
Inconsistent with objective.	

The IMO considers that relaxing the currently onerous provision for peaking plant to have sufficient fuel for 14 hours a day 10 months of the year will ensure that all energy options and technologies are equivalently treated (Market Objective (c)). In particular, the IMO considers the Market Rules currently unnecessarily discriminate against peaking plant.

Additionally, the IMO considers that clarifying that Non-Scheduled Generators, that are unable to increase output when instructed by System Management, can not be certified under the methodology described under clause 4.11.1(a) will promote the safe and reliable supply of electricity in the SWIS (Market Objective (a)). By ensuring that facilities are certified via the correct methodology, the availability of the Facility for the purposes of supplying capacity during peak periods will be correctly identified for the purposes of System Management.

The IMO considers the proposed amendments to clarify that a dual-fuelled facility must be able to operate for 12 hours at the requested level of Certified Reserve Capacity is consistent with the Market Objectives.

Issue 4: Transmission Access Requirements

The IMO considers the changes proposed to the terminology of transmission access requirements will be consistent with the Wholesale Market Objectives.

Issue 5: Widen requirement for provision of environmental and transmission access approvals

The IMO considers that the changes to require evidence of transmission access and environmental approval for all Facilities and the expansion of the consideration of network constraints that may impact the availability of the capacity will have the following impact on the Market Objectives:

Impact	Market Objectives
Allow the Market Rules to better address the objective.	a
Consistent with objective.	b, c, d ,e
Inconsistent with objective.	

The IMO considers that consideration of up-to-date transmission access and environmental approvals in the certification process for existing facilities will help ensure the required level of reliable capacity available in the SWIS. Further by ensuring that any network constraints, for both new and existing facilities, are taken into account the safety and reliability of the SWIS will be promoted (Market Objective (a))

Issue 6: Clarification around Intermittent and other Non-Scheduled Generators

The IMO considers the changes clarifying the Market Rules around Intermittent and other Non-Scheduled Generators will have the following impact on the Market Objectives:

Impact	Market Objectives
--------	-------------------

Allow the Market Rules to better address the objective.	a
Consistent with objective.	b, c, d, e
Inconsistent with objective.	

The IMO considers that the ability to consider the validity of an expert report will ensure facilities are assigned Certified Reserve Capacity on the most appropriate basis. This will promote Power System Security and reliability by ensuring the capacity requirements for the SWIS are met by the IMO during certification (Market Objective (a)).

The IMO considers that the other proposed amendments to:

- clarify that the same expert report may be provide under the Facility has operated for the full period of its performance assessment;
- stipulate that an expert report must also be provided by an in-service Facility that has not yet operated for the full period of performance assessment; and
- remove unnecessary duplication in the Market Rules,

are consistent with the Wholesale Market Objectives.

Issue 7: Transmission or other network constraints

The IMO considers the change to consider network constraints and not just transmission constraints when assigning Capacity Credits for Facilities subject to Network Control Service Contracts will have the following impact on the Market Objectives:

Impact	Market Objectives
Allow the Market Rules to better address the objective.	a
Consistent with objective.	b, c, d, e
Inconsistent with objective.	

The IMO considers that by ensuring facilities with a Network Control Service contract are assigned capacity credits based on network constraints and not just transmission constraints will promote power system security and reliability (Market Objective (a)). Certification of capacity that is based on all known constraints will ensure that adequate capacity is secured for the SWIS.

Issue 8: Erroneous references to “Registered Facilities”

The IMO considers that the correction of references to “Registered Facilities” is consistent with the Wholesale Market Objectives.

Issue 9: Provision of calculations on which the IMO’s assessment is based.

The IMO considers the change to only provide details of the calculations on which the IMO's assessment was based if requested will have the following impact on the Market Objectives:

Impact	Market Objectives
Allow the Market Rules to better address the objective.	a
Consistent with objective.	b, c, d, e
Inconsistent with objective.	

The IMO considers that by only requiring the IMO to provide information if requested by a Market Participant this will promote the allocative efficiency of IMO resources (Market Objective (a)).

Issue 10: Publication of Certified Reserve Capacity information by Facility

The IMO considers the change to publish the quantity of Certified Reserve Capacity assigned to each Facility on the same day that each Market Participant is notified of its Certified Reserve Capacity will have the following impact on the Market Objectives:

Impact	Market Objectives
Allow the Market Rules to better address the objective.	b
Consistent with objective.	a, c, d, e
Inconsistent with objective.	

The IMO considers that publishing information of Certified Reserve Capacity assigned to Facility will promote greater transparency of the quantities assigned to each Facility. The IMO considers that this will promote greater competition in the SWIS (Market Objective (b))

Issue 11: Changes to Facility design after Capacity Credits awarded or Maintenance of data provided for Certification of Reserve Capacity

The IMO considers the change to require Market Participants to provide details of the main components of their Facility in their application for Certified Reserve Capacity, and advise the IMO of any changes to this information will have the following impact on the Market Objectives:

Impact	Market Objectives
Allow the Market Rules to better address the objective.	a
Consistent with objective.	b, c, d, e
Inconsistent with objective.	

The IMO considers that by requiring information on the main components of a facility and advice of any subsequent changes the IMO will be able to ensure that the facility is correctly

certified based on its specific attributes. This will promote security and reliability in the SWIS by ensuring that capacity requirements are met during certification (Market Objective (a))

Issue 12: Repeated rejection of progress reports by IMO

The IMO considers the change to no longer require the IMO to repeatedly inform a late facility that its progress report is rejected will have the following impact on the Market Objectives:

Impact	Market Objectives
Allow the Market Rules to better address the objective.	a
Consistent with objective.	b, c, d, e
Inconsistent with objective.	

The IMO considers that by not being required to repeatedly inform a Market Participant of a reject of its progress report if it is late the allocative efficiency of IMO resources will be promoted (Market Objective (a))

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

Costs:

The IMO would require some changes to its internal operating procedures.

The IMO would be required to amend the Reserve Capacity Market Procedures.

Market Participants may require some minor changes to systems and internal procedures.

A process fee would be charged to a Market Participant where that Market Participant makes changes to the design of a Facility that require a reassessment to confirm that the Facility still meets the requirements for Certified Reserve Capacity. It is proposed to that the reapplication fee will be aligned with the fee for an application for conditional certification or a subsequent application for Early Certified Reserve Capacity.

Benefits:

Clarity of process and appropriate timelines will assist new investors, current Market Participants and the IMO.

The requirements for Certified Reserve Capacity will be strengthened, providing greater assurance of reliability of the supply of electricity.

Agenda item 5d:

Wholesale Electricity Market Pre Rule Change Discussion Paper

Change Proposal No: RC_2010_19
Received date: TBA

Change requested by

Name:	Bruce Cossill
Phone:	92544313
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Organisation:	IMO
Address:	Level 3 Governor Stirling Tower, 197 St Georges Tce, Perth 6000
Date submitted:	TBA
Urgency:	High
Change Proposal title:	Settlement Cycle Timeline
Market Rule affected:	9.16.3 and new clause 9.16.3A

Introduction

Clause 2.5.1 of the Wholesale Electricity Market Rules (Market Rules) provides that any person (including the Independent Market Operator (IMO)) may make a Rule Change Proposal by submitting a completed Rule Change Proposal form to the IMO.

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

Independent Market Operator

Attn: General Manager Development
 PO Box 7096
 Cloisters Square, Perth, WA 6850

Fax: (08) 9254 4339

Email: market.development@imowa.com.au

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

In order for the proposal to be progressed, all fields below must be completed and the 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.

Details of the proposed Market Rule Change

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

Background

One of the functions of the IMO is to settle the transactions required under the Market Rules. As such, the IMO manages the settlement, adjusted Settlement Statement and related invoicing processes for the Wholesale Electricity Market (WEM). This includes invoicing all revenue and costs for each Market Participant relating to:

- Short Term Energy Market (STEM) activities, with invoices issued and settled weekly; and
- Non-STEM activities, with Non-STEM invoices issued and settled monthly, two months in arrears (i.e. the initial settlement run for a trade month (n) is processed in the first week of the second month after the trade month (n + 2) with invoices issued two months after the trade month).

STEM invoices comprise of Market Participant purchases from and sales to the STEM. As the STEM market is a forward market that does not require meter data for settlement purposes it can be settled on a different timeframe from other transactions. Non-STEM invoices include allocation of costs for Ancillary Services, Balancing, reconciliation, Reserve Capacity and Market Fees. Details of these transactions require the availability of Meter Data and so are settled by the IMO after the necessary Meter Data has been received.

Market Participants are able to use the processes prescribed in the Market Rules to raise a Notice of Disagreement and Notice of Dispute with the IMO about Settlement Statements so that these can be revised and invoices adjusted or corrected (sections 9.20 and 9.21 of the Market Rules, as appropriate). The settlement adjustment process calculates the change in

settlement position of all Rule Participants after accounting for all changes to settlement data stemming from the provision of updated information by the Metering Data Agent and resolution of Notices of Disagreement and Disputes.

While Non-STEM Settlement Statements are also subsequently adjusted where revised metering data is received by the IMO, the Adjustment Process and the description of Relevant Settlement Statements does not clearly distinguish between STEM and Non-STEM Settlement Statements and the circumstances in which each type of statement may be adjusted.

Issue

In May of each year the IMO publishes a Settlement Cycle timeline. As part of the preparation for the 2010 timeline the IMO considered the provisions relating to the settlement cycle timeline and to the adjustment process in particular.

The IMO's current initial and adjusted Non-STEM Settlement Statement process and timetable works well, produces timely and accurate financial certainty, is easy to understand and has been accepted by Market Participants since market start. However, in a strict sense it does not fully comply with the requirements in clause 9.16.3 relating to the Adjustment Process.

Clause 9.16.3 currently reads:

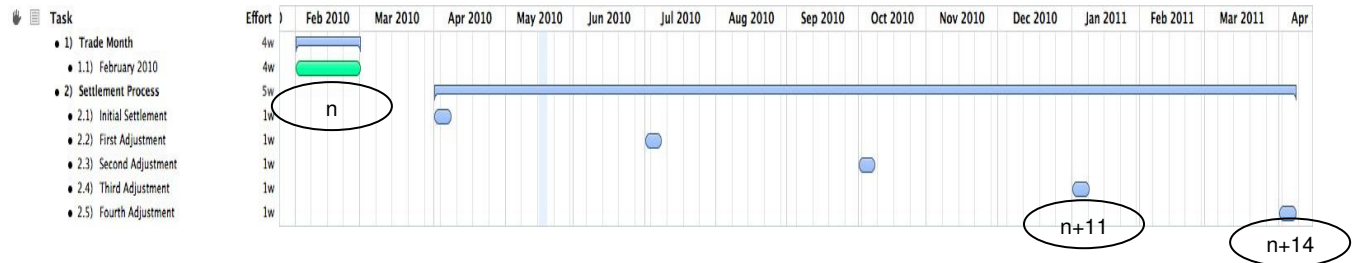
"The IMO must undertake a process for adjusting settlements ("Adjustment Process") at least once every three months. The purpose of the process is to review the relevant Settlement Statements which were issued in the 12 months prior to the commencement of the Adjustment Process ("Relevant Settlement Statements") to facilitate corrections resulting from Notices of Disagreement, the resolution of Disputes and revised metering data provided by Metering Data Agents. Adjustments may only be made to Relevant Settlement Statements. Adjustments may not be made to Settlement Statements outside of an Adjustment Process."

As the rule is written, the Adjustment Process is to be undertaken at least once every three months, and each initial Settlement Statement that was issued in the 12 months before the start of the Adjustment Process is to be reviewed (and if necessary adjusted).

To have complied with this clause in its current form would have required the IMO to complete one initial settlement run and four adjustments each calendar month, however this cycle would extend settlement finality out to 14 months after the Trading Month.

Since market start the IMO has implemented a monthly cycle where the IMO conducts one initial Non-STEM settlement run and three reviews and adjustments of prior Settlement Statements, each taking about one week to complete. In this way, assuming an Adjustment Process lasts for three months, over a three-month period the IMO completes three initial settlement runs and reviews prior Settlement Statements covering a nine month period preceding the start of the Adjustment Process. This approximates the Adjustment Process as set out in clause 9.16.3, and allows the Adjustment Process to be completed in 11 months, rather than 14, as prescribed.

The diagram below shows how the Adjustment Process would operate within the current requirements specified in the Market Rules:



In practice the IMO's Adjustment Process ends following the third adjustment at $n+11$ rather than following a fourth adjustment at $n+14$. Since market start the IMO has carried out adjustments to invoices three months after the initial settlement run (i.e. five months after the trade month), with a further two adjustments made at the six and nine month marks after initial settlement (i.e. eight and 11 months after the trade month).

Because the Adjustment Process commences every three months and takes three months to complete, based on current practice the Adjustment Process reviews nine Settlement Statements that were issued in the 12 months prior to the commencement of the Adjustment Process, rather than all 12 of those issued in the 12 months prior to the commencement of the Adjustment Process.

This means that in any calendar month the IMO is performing an initial settlement run (for trading month $n-2$) and three adjustments (for trading months $n-5$, $n-8$ and $n-11$). In this way each Trading Month's settlement data is calculated once (initial run) and adjusted three times (each with the opportunity for disagreement and dispute). Settlement certainty for any Trading Month is achieved eleven months after the Trading Month, with settlement (payment) finality relating to any Trading Month occurring in the twelfth month after that Trading Month.

Analysis undertaken by the IMO

The IMO notes that the Market Rules were originally drafted based on the assumption that at least four rounds of settlement corrections were undertaken each year. It was however originally acknowledged that this could be expanded or reduced as required based on the experience following Market Start¹.

The Adjustment Process requirements were drafted before the initial practical limitations of the settlement system were understood. They did not factor in the IMO's obligation (elsewhere in the Market Rules) to contemporaneously complete the initial Settlement Statement process each week for STEM and each month for Non-STEM. The current Market Rules also do not appear to recognise the two-month delay from Trading Month to initial Settlement Statement.

Initial practical limitations on the IMO's capacity to process a sufficient number of initial Settlement Statements and adjustments each month have led to a practicable process becoming embedded that does not fully reflect the intention of the Market Rules.

¹ For further details please refer to the Wholesale Electricity Market Amending Rules (16 September 2006) available on the following webpage: <http://www.imowa.com.au/market-rules>

The only means of delivering an Adjustment Process that reviews all 12 Settlement Statements that were issued prior to the commencement of the Adjustment Process would be if each Settlement Statement were open for one further adjustment cycle. However this would push finality of invoice certainty out to 14 months from the Trading Month for little or no practical gain in terms of Settlement Statement accuracy.

Advice received by the IMO from Market Participants indicates that they prefer settlement finality earlier rather than later. This is because Market Participant's systems are configured to align with the IMO's current practice and they are comfortable with the accuracy of Settlement Statements at month $n+11$.

It is relevant to note that clause 9.19.7 prohibits the issuance of a Notice of Disagreement with respect to an adjusted Settlement Statement more than nine months after the issuance of the original Settlement Statement (i.e. after month $n+11$). So as the Market Rules currently stand Market Participants are unable to seek to have further adjustments made to Settlement Statements after the third adjustment. The only way that a fourth adjustment at month $n+14$ could result in a change to a Settlement Statement would be by reason of revised Metering Data being provided by Metering Data Agents which is an unlikely event by that stage.

The IMO's experience over four years of settlements and adjustments is that metering data is largely accurate and complete within the first or second adjustments, with minimal further adjustment occurring in the third adjustment cycle.

Apart from a small adjustment that arises in each adjustment run due to a known faulty metering installation (equal to about 0.3% of that Market Participant's initial Settlement Statement), the quantum of adjustment amounts that have occurred in the third Settlement Statement adjustments over the previous 12 months is less than \$100 for any Market Participant. In other words, excluding revisions arising from disagreements or disputes (and one known metering fault which is intended to be replaced in due course), the dollar value of changes to Settlement Statements made at adjustment three are minimal.

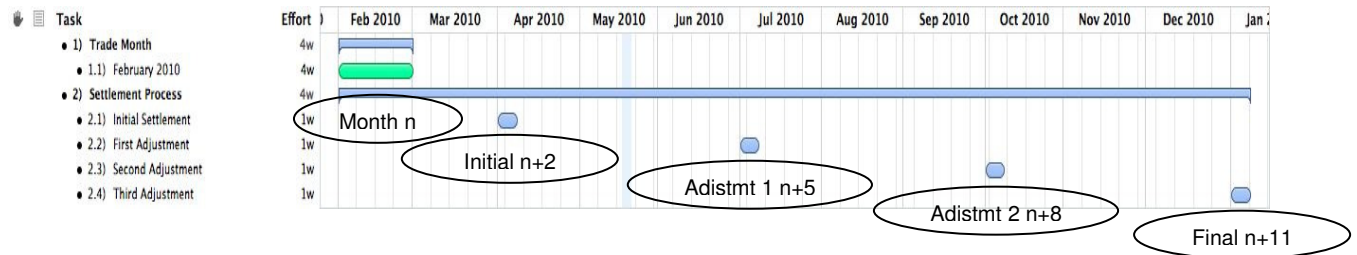
Therefore a fourth adjustment cycle would deliver little practical value for participants while unnecessarily extending the ability to achieve financial certainty of settlement.

Proposal

In considering what can practically be delivered and what Market Participants would prefer in terms of the number and timing of Settlement Statement adjustments, the IMO recommends that clause 9.16.3 be amended so that the number of Settlement Statements to be reviewed in any single Adjustment Process is reduced to nine. This would result in the current practice, which is thorough, practical, well-established and accepted by Market Participants, being aligned with the rules.

Settlement Statements would continue to be subject to multiple adjustments, with each month being subject to three adjustments over an 11-month period rather than four adjustments over a 14-month period.

The proposed adjustment cycle is illustrated below:



The IMO's proposes to change the Market Rules to reflect the process that has been carried out since market start with respect to Non-STEM adjustments. In addition, the IMO considers it would also be beneficial to clarify and make explicit the definition of Relevant Settlement Statements for the purposes of the adjustment process to distinguish between STEM and Non-STEM Settlement Statements and the circumstances in which each type of statement may be adjusted.

The proposed amendments would provide for:

- Monthly adjustments of STEM Settlement Statements where a Notice of Dispute or Notice of Disagreement had been resolved, and the resolution required new Settlement Statements to be issued; and
- Monthly adjustments of Non-STEM Settlement Statements. Each Non-STEM Settlement Statement would be adjusted three times, at three-monthly intervals, over a nine-month period. The adjustments would take into account revised metering data as well as any resolved Notice of Disputes or Disagreements. The period from the start of the trading month to the final adjustment would be eleven months.

2. Explain the reason for the degree of urgency:

The IMO proposes that this Rule Change Proposal be progressed through 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 ~~strikethrough~~ where words are deleted and underline words added)

9.16.3. The IMO must undertake a process for adjusting settlements ("**Adjustment Process**") in accordance with clause 9.19. ~~at least once every three months~~. The purpose of the process is to review the relevant Settlement Statements which were issued in the ~~42~~ nine months prior to the commencement of the Adjustment Process ("**Relevant Settlement Statements**") to facilitate corrections resulting from Notices of Disagreement, the resolution of Disputes, and revised metering data provided by Metering Data Agents. Adjustments may only be made to Relevant Settlement Statements. Adjustments may not be made to Settlement Statements outside of an Adjustment Process.

9.16.3A A Relevant Settlement Statement is:

- (a) Any STEM Settlement Statement or Non-STEM Settlement Statement that requires correction as the result of the resolution of a dispute raised under clause 2.19, or where the IMO has indicated under clause 9.20.7 that it will revise information in response to a Notice of Disagreement; and
- (b) Any Non-STEM Settlement Statement for which the Invoicing Date occurred in the month that is three, six or nine months prior to the start of the Adjustment Process, and for which the IMO has received revised metering data from a Metering Data Agent.

Glossary:

Relevant Settlement Statements: Has the meaning given in clause 9.16.3A.

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

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

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

Costs: None identified.

Benefits:

- Timely and regular adjustments;
- Early financial certainty for Market Participants; and
- Greater clarity around when and why Settlement Statements may be adjusted in the Market Rules.

Agenda item 5e:

Wholesale Electricity Market Pre Rule Change Discussion Paper

Change Proposal No: PRC_2010_21

Received date: TBA

Change requested by:

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Organisation:	IMO
Address:	Level 3, Governor Stirling Tower, 197 St Georges Terrace, Perth
Date submitted:	TBA
Urgency:	Low
Change Proposal title:	Providing Price Related Standing Data to System Management
Market Rule affected:	2.34.1

Introduction

Clause 2.5.1 of the Wholesale Electricity Market Rules (Market Rules) provides that any person (including the Independent Market Operator (IMO)) may make a Rule Change Proposal by submitting a completed Rule Change Proposal form to the IMO.

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

Independent Market Operator

Attn: General Manager, Development

PO Box 7096

Cloisters Square, Perth, WA 6850

Fax: (08) 9254 4339

Email: market.development@imowa.com.au

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

In order for the proposal to be progressed, all fields below must be completed and the 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.

Details of the proposed Market Rule Change

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

Background

Standing Data is the data required to be maintained by the Independent Market Operator (IMO) for use by:

- the IMO in market processes; and
- System Management in dispatch processes.

Standing Data includes all the data described in Appendix 1 of the Wholesale Electricity Market Rules (Market Rules).

Clause 2.34.1(b) of the Market Rules currently requires the IMO to provide Standing Data to System Management. However, some of the information in Appendix 1 relates to prices (for example (c) v and vi, (h) vi and (i) xA).

A similar problem existed with clause 2.34.12 in that the IMO had an obligation to consult with System Management before making a decision to require a Market Participant to provide updated Standing Data. This provision applied to all standing data, even that related to pricing.

In 2008 System Management submitted a Rule Change Proposal¹ to rectify this issue, noting that:

- *“System Management considers that it is inappropriate that the provision continue in its current broad form, and suggests it be constrained to only non-pricing related data”; and*

¹ Refer: www.imowa.com.au/RC_2008_04

- “The changes [from RC_2008_04] would delete an inappropriate provision, which is System Management being consulted about price related standing data”.

Issue

The Market Rules currently require the IMO to provide Standing Data, including price related data, to System Management. The IMO considers that this is inappropriate and inconsistent with the changes arising from RC_2008_04.

Proposal

The IMO proposes to amend the Market Rules to ensure that price related Standing Data is not provided to System Management.

2. Explain the reason for the degree of urgency:

The IMO proposes that this Rule Change Proposal be progressed through 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 ~~strikethrough~~ where words are deleted and underline words added)

2.34.1. The IMO must:

- (a) maintain a record of the Standing Data described in Appendix 1, including the date from which the data applies; and
 - (b) provide the Standing Data excluding any Standing Data that concerns prices, and any revisions of ~~the~~ that Standing Data, to System Management as soon as practicable.
-

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

The IMO considers that the proposed changes, which will improve the integrity of the Market Rules, are consistent with the operation of the Wholesale Market Objectives.

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

Costs: No costs associated with implementing this proposed change have been identified.

Benefits: The proposed changes will:

- remove an inappropriate provision from the Market Rules; and

- increase the certainty of the application of the Market Rules.

Agenda Item 5f: Consequential Outage – Relief from capacity refund and unauthorised deviation penalties (RC_2010_23)

1. BACKGROUND

On 2 August 2010, Alinta submitted a Rule Change Proposal that seeks relief from Capacity Cost Refunds, UDAP and DDAP where a Facility suffers a Consequential Outage. As it was considered to be addressing a manifest error, the Rule Change Proposal met the criteria to be fast-tracked. However, due to the complexity of the Rule Change Proposal its timelines have twice been extended, which has seen it revert to the Standard Rule Change Process. Alinta has requested that this Rule Change Proposal be discussed at the Market Advisory Committee (MAC). The Rule Change Notice is attached to this paper.

2. ISSUES

During the Rule Change Process to date a number of issues have been discovered. These are:

- the impact of partial Consequential Outages;
- current reporting of full and partial Consequential Outages;
- potential for gaming; and
- the requirement for strengthened governance arrangements in relation to Consequential Outage submissions.

The IMO outlined these issues in an addendum to the Rule Change Notice. This addendum was published on 1 October 2010, and is attached to this paper for reference.

Impact of Partial Consequential Outages

The drafting in the original Rule Change Proposal would provide a Market Participant with the same level of relief regardless of the extent of a Consequential Outage. For example, the proposed Amending Rules would protect a Facility that suffered a Consequential Outage from any deviation penalties, even where the outage did not affect the Facility's ability to meet its Resource Plan. As a general principle, when a Facility suffers a Consequential Outage that affects only a part of its capacity, it should be protected from deviation penalties only to the extent that the Facility's capacity was reduced as a direct result of the Consequential Outage.

The IMO has proposed an alternative drafting that limits the extent of the relief provided in the event of a partial Consequential Outage. This drafting was included in the addendum published on 1 October 2010. However, this alternative drafting is now much more complex than the original proposal and the likely cost implications are higher. The IMO will provide the cost estimates for the original drafting and the alternative drafting at the MAC meeting.

Issue 1: The consideration of partial Consequential Outages in the Rule Change Proposal has made the proposal much more complex and the likely cost implications higher.

Current reporting of full and partial Consequential Outages

Due to the complexities involved System Management has not been able to provide an estimate of the frequency of unreported Consequential Outages and the relative frequency of partial Consequential Outages, although it has advised that in the event of this Rule Change Proposal being progressed it expects that the number of reported Consequential Outages may increase.

Issue 2: Partial and Consequential Outages may currently be under-reported. Should the proposal progress, it possible that Consequential Outage submissions will increase.

Potential for gaming

The IMO considers that if the Rule Change Proposal proceeds there is a potential for participants to “game” the arrangements for example by either claiming a Forced Outage as a Consequential Outage or exaggerating the impact of the Consequential Outage on a Facility’s ability to meet its obligations. This is because, in some cases, establishing a link of causality between events or circumstances on the SWIS and a Market Participant’s submissions to System Management in relation to a particular outage event may be difficult or impossible.

Strengthened governance arrangements in relation to Consequential Outage submissions

System Management has suggested that several additional clauses may be necessary to strengthen governance and establish increased accountability regarding a Market Participant’s outage submissions to System Management. The suggestion is outlined in the addendum.

Issue 3: The current tracking mechanism for Consequential Outages may lead to Market Participants “gaming”. Therefore strengthened governance arrangements in relation to Consequential Outage submissions may be required.

Impact of the Market Evolution Program on this Rule Change Proposal

The IMO and System Management agree with Alinta’s proposal in that the current treatment (ex-post) of Consequential Outages under the Market Rules creates an impost on Market Participants that cannot be managed by them.

The Market Evolution Program (MEP) which, among other things, is reviewing the application of UDAP and DDAP and reviewing the Capacity Cost Refund mechanism. As a consequence the outcomes achieved under this Rule Change Proposal may be superseded. This should be considered in determining the appropriate solution for the issue raised by Alinta.

3. RECOMMENDATIONS

The IMO recommends that the MAC:

- **Discuss** each of the issues raised in this paper; and
- **Note** that submissions on this Rule Change Proposal close on 14 October 2010.



Independent Market Operator

Rule Change Notice

**Title: Consequential Outage –
Relief from capacity
refund and unauthorised
deviation penalties**

Ref: RC_2010_23

Standard Rule Change Process

Date: 21 September 2010

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DOCUMENT DETAILS

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Report Title: Rule Change Notice: Consequential Outage – Relief from capacity refund and unauthorised deviation penalties
Release Status: Public
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Independent Market Operator

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1. THE RULE CHANGE PROPOSAL

1.1. The Submission

On 3 August 2010 Alinta submitted a Rule Change Proposal regarding amendments to clauses 6.15.1 and 6.15.2 of the Wholesale Electricity Market Rules (Market Rules).

This Rule Change Notice is published according to clause 2.5.7 of the Market Rules, which requires the IMO to publish a notice within seven business days of receiving a Rule Change Proposal.

1.1.1 Submission details

Name:	Corey Dykstra
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Date submitted:	3 August 2010
Urgency:	<i>Fast Track Rule Change – Correction of manifest error</i>
Change Proposal title:	Consequential Outage – Relief from capacity refund and unauthorised deviation penalties
Market Rules affected:	Clauses 6.15.1 and 6.15.2

1.2. Details of the Proposal

In its Rule Change Proposal, Alinta notes that clause 3.21.2 of the Market Rules defines a Consequential Outage as an outage of a Facility or item of equipment on the equipment list described in clause 3.18.2 for which no approval was received by System Management, but which System Management determines:

- was caused by a Forced Outage to another Rule Participant's equipment; and
- would not have occurred if the other Rule Participant's equipment had not suffered a Forced Outage.

Alinta considers it to be a manifest error that where a Facility suffers a Consequential Outage, the Market Rules do not adjust the Facility's Dispatch Schedule for the relevant Trading Intervals to account for that Consequential Outage.

Alinta notes that a Market Participant who suffers a Consequential Outage is not relieved from capacity refunds under clause 4.26 or from penalties for unauthorised deviations from its Dispatch Schedule under clause 6.17, even though these deviations are outside of its control and would not have occurred had another Rule Participant's equipment not suffered a Forced Outage.

That a Market Participant should be exposed to capacity refunds under clause 4.26, with multipliers being as high as 6 in peak periods, due to the Forced Outage of another Participant's Facility or equipment is of particular concern to Alinta.

Alinta notes that in a number of other cases adjustments are made when deviations from a Dispatch Schedule are outside the control of a Market Participant. Specifically, clause 6.15.2 ensures that the Dispatch Schedule for a Trading Interval is set equivalent to the corresponding Metered Schedule for Scheduled Generators that are subject to:

- Commissioning Tests (clause 3.21A); or
- Reserve Capacity Testing (clause 4.25); or
- Dispatch Instructions specifying a minimum MW level (clause 7.7.3(d)(ii)).

1.3. The Proposal and the Wholesale Market Objectives

Alinta considers that the failure of the Market Rules to adjust Dispatch Schedules to account for Consequential Outages represents a manifest error, which has the potential for significant adverse financial implications and must therefore be addressed as soon as possible ahead of the summer peak period.

As a result, Alinta considers that the proposed amendments are necessary to support Market Objectives (a) and (b), as they:

- promote the economically efficient production and supply of electricity and electricity related services in the South West interconnected system; and
- encourage competition among generators in the South West interconnected system, including by facilitating efficient entry of new competitors.

Further, Alinta submits that the proposed amendments eliminate a non-controllable risk by reducing the exposure of Market Participants to capacity refunds or penalties for unauthorised deviations in the event of a Consequential Outage, which is likely to promote Market Objective (d).

Alinta also considers that the proposed amendments are consistent with Market Objective (c) and are not inconsistent with Market Objective (e).

2. WHETHER THE PROPOSAL WILL BE PROGRESSED FURTHER

The IMO has decided to proceed with this proposal on the basis that the IMO's preliminary assessment indicates that the proposal is consistent with the Wholesale Market Objectives.

The IMO originally decided to process this Rule Change Proposal using the Fast Track Rule Change Process, described in section 2.6 of the Market Rules, on the basis that it satisfies the criterion in clause 2.5.9(b) of the Market Rules. Clause 2.5.9 states:

The IMO may subject a Rule Change Proposal to the Fast Track Rule Change Process if, in its opinion, the Rule Change Proposal:



(a) is of a minor or procedural nature; or

(b) is required to correct a manifest error; or

(c) is urgently required and is essential for the safe, effective and reliable operation of the market or the SWIS.

The IMO notes that clause 4.12.6(b) of the Market Rules requires the IMO to reduce the Reserve Capacity Obligation Quantity (RCOQ) for a Facility if it is notified ex-ante of a Consequential Outage. This prevents the Market Participant from being penalised for failing to offer the affected capacity into the market. However, under the current Market Rules no adjustment is made to account for Consequential Outages that are identified ex-post, leaving the Market Participant exposed to capacity refunds and deviation penalties. As such, the IMO considers that the proposed amendments fulfil clause 2.5.9(b), in that they are required to correct a manifest error, and therefore may be fast-tracked.

2.1 Extension of the consultation period (30 August 2010)

The IMO extended the consultation period for this Rule Change Proposal until 22 September 2010. This extension was in accordance with clause 2.5.10 of the Market Rules. A notice of this extension was published under clause 2.5.12 on the IMO website on 30 August 2010, and notified to interested stakeholders in the IMO's RulesWatch volume 2 issue 35, published on 30 August 2010.

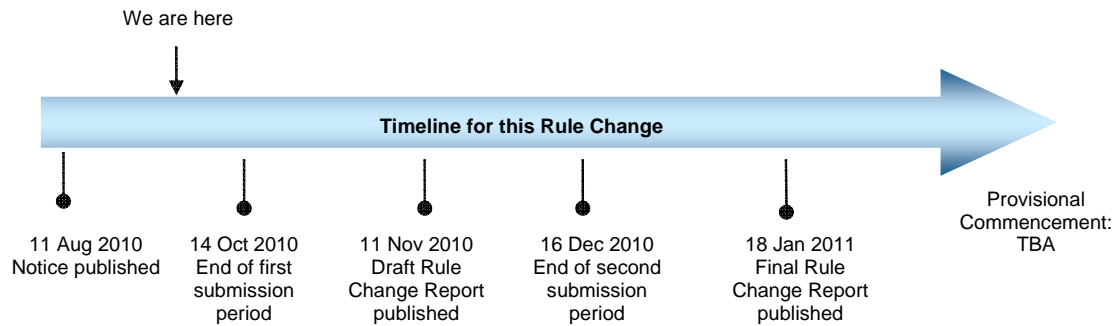
2.1 Second extension and process reclassification (21 September 2010)

The IMO extended the consultation period for this Rule Change Proposal until 14 October 2010. This extension was in accordance with clause 2.5.10 of the Market Rules. In accordance with clause 2.5.11 the IMO also reclassified the Rule Change Proposal as no longer being subject to the Fast Track Rule Change Process, as the total extension period exceeded 15 business days. The Rule Change Proposal will now be processed using the Standard Rule Change Process, described in section 2.7 of the Market Rules.

A notice of the extension and the reclassification of the Rule Change Proposal was published under clause 2.5.12 on the IMO website on 21 September 2010..

Note that only sections two and three of this Rule Change Notice have been updated with the revised timelines following the notice of extension. All other parts of this document remain unchanged from the original version published on 11 August 2010.

The projected timeline for processing this proposal is:



3. CALL FOR SUBMISSIONS

The IMO is seeking submissions regarding this proposal. The extended submission period is 45 Business Days from the publication date of the original Rule Change Notice. Submissions must be delivered to the IMO by 5.00pm on **Thursday, 14 October 2010**.

The IMO prefers to receive submissions by email to market.development@imowa.com.au using the submission form available on the IMO website: <http://www.imowa.com.au/rule-changes>

Submissions may also be sent to the IMO by fax or post, addressed to:

Independent Market Operator
 Attn: General Manager Development
 PO Box 7096
 Cloisters Square, Perth, WA 6850
 Fax: (08) 9254 4399

4. PROPOSED AMENDING RULES

Alinta proposes the following amendments to the Market Rules (~~deleted text~~, added text):

6.15.1. For a Market Participant other than the Electricity Generation Corporation, the Dispatch Schedule for a Trading Interval for a Scheduled Generator (excluding those to which clauses 3.21.2, 3.21A.14 or 4.25.10 apply) or Dispatchable Load is:

...

6.15.2. The Dispatch Schedule for a Trading Interval for any of the following Facilities equals the corresponding Metered Schedule:

- (a) a Non-Scheduled Generator;
- (aA) a Scheduled Generator to which clauses 3.21.2, 3.21A.14 or 4.25.10 apply;
- (b) a Non-Dispatchable Load;

- (c) a Curtailable Load;
- (d) an Interruptible Load;
- (e) a Scheduled Generator or Dispatchable Load registered by the Electricity Generation Corporation; and
- (f) a Scheduled Generator or Dispatchable Load registered by a Market Participant (other than the Electricity Generation Corporation) where a Dispatch Instruction of the type described in clause 7.7.3(d)(ii) was issued to the Market Participant in respect of the Facility.

5. ABOUT RULE CHANGE PROPOSALS

Clause 2.5.1 of the Market Rules provides that any person (including the IMO) may make a Rule Change Proposal by completing a Rule Change Proposal Form and submit this to the IMO.

The IMO will assess the proposal and, within 5 Business Days of receiving the proposal form, will notify the proponent whether the proposal will be progressed further.

In order for the proposal to be progressed the change proposal must explain how it will enable the Market Rules to better contribute to the achievement of the Wholesale Market Objectives. The market objectives 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.

A Rule Change Proposal can be processed using a Standard Rule Change Process or a Fast Track Rule Change Process. The standard process involves a combined 10 weeks public submission period, while the fast track process involves the IMO consulting with Rule Participants who either advise the IMO that they wish to be consulted or the IMO considers have an interest in the change.

**ADDENDUM TO RULE CHANGE NOTICE:
RC_2010_23: Consequential Outage – Relief from capacity refund and
unauthorised deviation penalties**

The IMO acknowledges that, because this addendum is not contained in a Rule Change Notice, the addendum has no formal standing. However, the IMO invites Rule Participants to make submissions on the Rule Change Notice as previously notified. If considered appropriate the IMO invites Rule Participants to specifically submit on the information contained in this addendum during the first submission period.

As previously notified, the first submission period submissions must be delivered to the IMO by 5.00pm on **Thursday 14 October 2010**.

BACKGROUND

RC_2010_23, proposed by Alinta on 3 August 2010, seeks to amend the Wholesale Electricity Market Rules to provide Market Participants with relief from capacity refunds and UDAP/DDAP where a Facility suffers a Consequential Outage.

Full details of the original proposed amendments are provided in the Rule Change Proposal available: http://www.imowa.com.au/RC_2010_23

IMPACT OF PARTIAL CONSEQUENTIAL OUTAGES

Following the publication of the Rule Change Notice, the IMO raised an issue with Alinta concerning the impact of its Rule Change Proposal on a Facility suffering a partial Consequential Outage. The drafting in the Rule Change Proposal would protect a Facility that suffered a Consequential Outage from any deviation penalties, even where the outage did not affect the Facility's ability to meet its Resource Plan.

Alinta agreed with the IMO that where a Facility suffers a Consequential Outage that affects only a part of its capacity, it should be protected from deviation penalties only to the extent that the Facility's capacity was reduced as a direct result of the Consequential Outage. In its correspondence with the IMO, Alinta considered that this approach was preferable even though the incidence of partial Consequential Outages may be low.

After discussions with System Management and Alinta the IMO has prepared an alternative drafting that limits the extent of the relief provided in the event of a partial Consequential Outage. The alternative drafting, which is provided in this addendum, is of necessity much more complex than the original drafting proposed by Alinta.

In recognition of this complexity, its likely cost implications and the possibility that Consequential Outages are at present under-reported, the IMO sought an estimate from System Management of the frequency of unreported Consequential Outages and the relative frequency of partial Consequential Outages. Due to the complexities involved System Management has not been able to provide an estimate of these values, although it has advised that in the event of this Rule Change Proposal being

progressed it expects that the number of reported Consequential Outages may increase.

STRENGTHENED GOVERNANCE ARRANGEMENTS IN RELATION TO CONSEQUENTIAL OUTAGE SUBMISSIONS

System Management has advised that it appreciates that the current treatment of Consequential Outages under the Market Rules creates an impost on recipients of Capacity Payments that cannot be managed or ameliorated by them.

System Management considers that, under the proposed drafting, there is potential for participants to “game” the arrangements by either claiming a Forced Outage as a Consequential Outage, or else exaggerating the impact of the Consequential Outage on the Facility’s ability to meet its obligations.

This is because, in some cases, establishing a link of causality between events or circumstances on the SWIS and a Market Participant’s submissions to System Management in relation to a particular outage event may be difficult or impossible.

In such circumstances the use of system simulations may assist to resolve some of this uncertainty. However, depending on the extent to which the frequency of Consequential Outages increases, commissioning such studies into every event may be costly. Further, it is likely that such studies may not be able to be completed in time for data be submitted to the IMO for use in its settlement processes.

System Management has suggested several additional clauses may be necessary to strengthen governance and establish increased accountability regarding a Market Participant’s outage submissions to System Management.

The approach has not been developed to the drafting stage, but may include the following elements.

- A Market Participant would be required to provide information, certified by a representative with appropriate authority, affirming that the Consequential Outage had occurred and providing relevant details to the best of its knowledge of the events which resulted in the Consequential Outage.
- Subject to the receipt of a letter as described above and in the absence of information that would be grounds for System Management to disallow the application, the outage details would be provided to the IMO as part of its normal procedures (i.e. 15 days after the Trading Day).
- At regular intervals (to be determined, but probably annually), System Management would commission a modelling study into the Consequential Outages (or a subset of these) that were recorded during the previous period. The intent of the review would be to investigate, by way of system simulation, the circumstances surrounding some or all of the outages and to determine the validity of the claims made by Market Participants. This information would then be provided to the market for its consideration and assessment.

System Management has noted that the cost of a modelling study would not be covered under its existing budget, and so the provision of funding to undertake the studies would need to be discussed with the ERA.

ALTERNATIVE PROPOSED AMENDMENTS

The general idea behind the alternative drafting is that when a participant reports a Consequential Outage for a Scheduled Generator or Dispatchable Load they will need to provide estimates of the maximum MWh quantities that could have been supplied or consumed by the Facility in each affected Trading Interval, taking into account the Consequential Outage. For a full Consequential Outage it would be expected that these values would be zero. Under the proposed drafting maximum quantities are required for both consumption and supply, since (at least in theory) generators can consume and Dispatchable Loads can provide net generation in a Trading Interval.

These quantities would be sanity-checked by System Management, which would be able to replace the values provided by the Market Participant if it considered that they were not reasonable for the Facility and the Consequential Outage. System Management would not be obliged to take any action if it did not know that the values provided were inconsistent with its knowledge of the Facility and Consequential Outage. If System Management altered the values proposed by a Market Participant it would be required to notify the participant of its actions.

System Management would need to include the values provided by Market Participants in the outage schedules sent to the IMO under clauses 7.3.4(a) and 7.13.1A.

If a Consequential Outage is reported for a Scheduled Generator or Dispatchable Load, then the process to calculate the DSQ under clause 6.15.1 would first assess how much the Facility could have supplied or consumed in the Trading Interval, i.e.:

- the maximum supply quantity is assumed to be the maximum of the max supply value provided by the Market Participant and the MSQ (the MSQ is considered in case the participant underestimated what could be supplied); and
- the maximum consumption quantity is the minimum (since consumption is negative) of the max consumption value provided by the participant and the MSQ.

These two values form the boundaries of the range of what the Facility could reasonably have been to supply/consume in the Trading Interval. If the Resource Plan amount, adjusted for Dispatch Instructions, etc, falls outside of this range then for the purposes of calculating the DSQ it will be reduced (for supply) or increased (for consumption) to the extent needed to bring it inside the range.

The alternative proposed drafting is as follows (~~deleted text~~, added text):

- 3.21.4. If a Facility or item of equipment that is on the list described in clause 3.18.2 or a Facility or generation system to which clause 3.18.2A relates suffers a Forced Outage or Consequential Outage, then the relevant Market Participant or Network Operator must inform System Management

of the outage as soon as ~~practical~~practicable. Information provided to System Management must include:

- (a) the time the outage commenced;
- (b) an estimate of the time the outage is expected to end;
- (c) the cause of the outage;
- (d) the Facility or item of equipment or Facilities or items of equipment affected; and
- (e) for each affected Facility or item of equipment, the expected quantity of any de-rating by Trading Interval, where, if the Facility is a generating system, this quantity is to be submitted in accordance with clause 3.21.5-;
- (f) for each Scheduled Generator or Dispatchable Load suffering a Consequential Outage and for each affected Trading Interval, the estimated maximum Loss Factor adjusted MWh quantity of energy that, after taking into account the impact of the Consequential Outage, could have been consumed by the Facility during that Trading Interval (where this number may have a zero or negative value); and
- (g) for each Scheduled Generator or Dispatchable Load suffering a Consequential Outage and for each affected Trading Interval, the estimated maximum Loss Factor adjusted MWh quantity of energy that, after taking into account the impact of the Consequential Outage, could have been supplied by the Facility during that Trading Interval.

3.21.4A. System Management, in its assessment of a Consequential Outage under clause 3.21.2, must consider whether the estimated values provided by a Market Participant in accordance with clauses 3.21.4(f) and 3.21.4(g) are consistent with System Management's knowledge of the relevant Facility and the Forced Outage which caused the Consequential Outage. If System Management considers that any estimated values provided by the Market Participant are not reasonable then System Management must, for the purposes of clauses 7.3.4(a) and 7.13.1A replace these values with values that System Management considers are more appropriate for the particular Facility and Consequential Outage.

3.21.4B. If System Management decides to replace any estimated values provided by a Market Participant under clauses 3.21.4(f) or 3.21.4(g) in accordance with clause 3.21.4A, then System Management must as soon as practicable provide the Market Participant with a notification that specifies:

- (a) the Facility and Trading Intervals affected by the decision;
- (b) System Management's reasons for the replacement; and
- (c) for each affected Trading Interval, the value or values proposed by the Market Participant and the replacement value or values determined by System Management.

6.15.1. For a Market Participant other than the Electricity Generation Corporation, the Dispatch Schedule for a Trading Interval for a Scheduled Generator (excluding those to which clauses 3.21A.14 or 4.25.10 apply) or Dispatchable Load is:

- (a) where no Dispatch Instructions were issued in respect of the Registered Facility for the Trading Interval, equal to the ~~energy to be generated and sent out or consumed by the Registered Facility indicated in the applicable Resource Plan (where for the purpose of this calculation a Loss Factor adjustment is to be applied to the quantity of energy so that the result is measured at the Reference Node) for that Trading Interval~~ quantity determined in accordance with clause 6.15.1A, plus;
 - i. where the Metered Schedule for the Trading Interval is higher than or equal to the ~~applicable Resource Plan value~~ quantity determined in accordance with clause 6.15.1A, the Facility's Facility Dispatch Tolerance as a positive value to the extent that the resulting Dispatch Schedule does not exceed the Metered Schedule or
 - ii. where the Metered Schedule for the Trading Interval is lower than the ~~applicable Resource Plan value~~ quantity determined in accordance with clause 6.15.1A, the Facility's Facility Dispatch Tolerance as a negative value to the extent that the resulting Dispatch Schedule is not lower than the Metered Schedule;
- (b) where one or more Dispatch Instructions that specified a target MW output level or an instruction under a Network Control Service Contract were issued to the Market Participant in respect of the Registered Facility for the Trading Interval, equal to:
 - i. where:
 - 1. the Metered Schedule plus the Facility's Facility Dispatch Tolerance (Loss Factor adjusted so as to be measured at the Reference Node) is greater than or equal to the quantity determined in accordance with clause 6.15.1A ~~amount calculated in accordance~~

~~with Appendix 7 plus the quantities under a Network Control Service Contract instructions plus Balancing Support Contract energy dispatched (where for the purpose of this calculation a Loss Factor adjustment is to be applied to the amount calculated in accordance with Appendix 7, to the Facility Dispatch Tolerance, to the quantities under a Network Control Service Contract and to the quantities under a Balancing Support Contract so that in each case the result is measured at the Reference Node); and~~

2. the Metered Schedule less the Facility's Facility Dispatch Tolerance (Loss Factor adjusted so as to be measured at the Reference Node) is less than or equal to the quantity determined in accordance with clause 6.15.1 ~~Amount calculated in accordance with Appendix 7 plus the quantities under a Network Control Service Contract instructions plus Balancing Support Contract energy dispatched (where for the purpose of this calculation a Loss Factor adjustment is to be applied to the amount calculated in accordance with Appendix 7, to the Facility Dispatch Tolerance, to the quantities under a Network Control Service Contract and to the quantities under a Balancing Support Contract so that in each case the result is measured at the Reference Node);~~

then the Metered Schedule; or

- ii. otherwise, the quantity determined in accordance with clause 6.15.1 ~~Amount calculated in accordance with Appendix 7 plus the quantities under a Network Control Service Contract instructions plus Balancing Support Contract (where for the purpose of this calculation a Loss Factor adjustment is to be applied to the amount calculated in accordance with Appendix 7, to the quantities under a Network Control Service Contract and to the quantities under a Balancing Support Contract so that the result is measured at the Reference Node).~~

6.15.1A. For the purposes of clause 6.15.1(a) the IMO must determine a MWh quantity for a Trading Interval for a Registered Facility equal to the energy to be generated and sent out or consumed by the Registered Facility indicated in the applicable Resource Plan (where for the purpose of this calculation a Loss Factor adjustment is to be applied to the quantity of

energy so that the result is measured at the Reference Node) for that Trading Interval. However, if System Management has advised the IMO of a Consequential Outage suffered by the Registered Facility during the Trading Interval in accordance with clause 7.13.1A(b) then the IMO must adjust this MWh quantity so that it does not exceed the energy that could have been generated and sent out or consumed by the Registered Facility during the Trading Interval. The adjusted MWh quantity is equal to:

$$\text{Min}(\text{Max}(\text{INITQ}, \text{Min}(\text{CMAX}, \text{MSQ})), \text{Max}(\text{SMAX}, \text{MSQ}))$$

where:

INITQ is the MWh quantity that would apply for the purposes of clause 6.15.1(a) if the Registered Facility had not suffered a Consequential Outage during the Trading Interval;

CMAX is equal to the value provided by the responsible Market Participant for the Trading Interval under clause 3.21.4(f) and (if applicable) adjusted by System Management under clause 3.21.4A, provided to the IMO in accordance with clause 7.13.1A(b);

SMAX is equal to the value provided by the responsible Market Participant for the Trading Interval under clause 3.21.4(g) and (if applicable) adjusted by System Management under clause 3.21.4A, provided to the IMO in accordance with clause 7.13.1A(b); and

MSQ is equal to the Metered Schedule for the Trading Interval.

6.15.1B. For the purposes of clause 6.15.1(b) the IMO must determine a MWh quantity for a Trading Interval for a Registered Facility equal to the amount calculated in accordance with Appendix 7 plus the quantities under Network Control Service Contract instructions plus Balancing Support Contract energy dispatched (where for the purpose of this calculation a Loss Factor adjustment is to be applied to the amount calculated in accordance with Appendix 7, to the quantities under a Network Control Service Contract and to the quantities under a Balancing Support Contract so that in each case the result is measured at the Reference Node). However, if System Management has advised the IMO of a Consequential Outage suffered by the Registered Facility during the Trading Interval in accordance with clause 7.13.1A(b) then the IMO must adjust this MWh quantity so that it does not exceed the energy that could have been generated and sent out or consumed by the Registered Facility during the Trading Interval. The adjusted MWh quantity is equal to:

$$\text{Min}(\text{Max}(\text{INITQ}, \text{Min}(\text{CMAX}, \text{MSQ})), \text{Max}(\text{SMAX}, \text{MSQ}))$$

where:

INITQ is the MWh quantity that would apply for the purposes of clause 6.15.1(b) if the Registered Facility had not suffered a Consequential Outage during the Trading Interval;

CMAX is equal to the value provided by the responsible Market Participant for the Trading Interval under clause 3.21.4(f) and (if applicable) adjusted by System Management under clause 3.21.4A, provided to the IMO in accordance with clause 7.13.1A(b);

SMAX is equal to the value provided by the responsible Market Participant for the Trading Interval under clause 3.21.4(g) and (if applicable) adjusted by System Management under clause 3.21.4A, provided to the IMO in accordance with clause 7.13.1A(b); and

MSQ is equal to the Metered Schedule for the Trading Interval.

TROY FORWARD
GENERAL MANAGER DEVELOPMENT

Agenda item 5g

Wholesale Electricity Market Pre Rule Change Discussion Paper

Change Proposal No: *PRC_2010_28*

Received date: *TBA*

Change requested by

Name:	Troy Forward
Phone:	(08) 9254 4300
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Email:	troy.forward@imowa.com.au
Organisation:	Independent Market Operator
Address:	Level 3, Governor Stirling Tower, 197 St George's Terrace
Date submitted:	TBA
Urgency:	High
Change Proposal title:	Capacity Credit Reduction
Market Rule(s) affected:	Clauses 2.17.1, 4.12.6, 4.25.12, 4.27.10, 4.27.10A and new clauses 4.20.8, 4.20.9, 4.20.10, 4.20.11, 4.20.12, 4.20.13, 4.20.14

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: General Manager Development
PO Box 7096
Cloisters Square, Perth, WA 6850

Fax: (08) 9254 4339
Email: market.development@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.

Details of the proposed Market Rule Change

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

Background

Over the past twelve months, the Wholesale Electricity Market (WEM) has experienced, for the first time, settlement in default as a result of failure of one Market Participant to pay invoices. The reason this event has occurred stems from within the Reserve Capacity Mechanism with the respective Market Participant being awarded Certified Reserve Capacity and Capacity Credits some years ago for the development, construction and commissioning of a new Facility. The Market Participant in question did not build its proposed Facility and consequently failed to provide Reserve Capacity to the WEM.

In this instance, the issues associated with this Facility were well known in advance by the IMO and there was no possibility of the capacity being delivered to the market within the Capacity Year.

Issue

The outworking of this situation resulted in all Market Participants being short-paid every month in the Non-STEM settlement process for the Capacity Year. These short-pay arrangements may extend for up to three years while Capacity Credits have been awarded to the Market Participant. This is a burdensome process applied to all Market Participants, none of which have contributed to this issue in the first place.

Proposed Solution

The IMO proposes that under conditions such as these, in respect of a new Facility which is expected to be unable to deliver its entire capacity to the WEM for the entire Capacity Year, the IMO will be able to reduce the number of Capacity Credits associated with the Facility for that year.

Specifically, the IMO proposes the following process apply:

- Prior to the beginning of each Capacity Year, and where the IMO becomes aware that a Facility assigned Capacity Credits is unlikely to be able to make its capacity available to the WEM for an entire Capacity Year, (as identified from the either the progress reports provided by a Market Participant under either clause 4.27.10 or 4.27.10A or as a result of any additional information the IMO may have available to it), the IMO would be required to issue a notice to the Market Participant of its intention to reduce its Capacity Credits to zero.
- The Market Participant would be provided a period in which it may respond to the IMO's notice of intention to reduce the Facility's Capacity Credits to zero. Where the Market Participant disagrees with the IMO's intention it will be required to provide supporting evidence as to why the Facility's Capacity Credits should not be reduced.
- The IMO would consider any supporting evidence provided by the Market Participant when making its final decision whether to reduce the Facility's Capacity Credits.
- If, in the IMO's reasonable expectation, it considers that the capacity will not be made available to the WEM, it may reduce the number of Capacity Credits assigned to the Facility for the period in question to zero.
- The IMO would then be required to draw down on any Reserve Capacity Security held in respect of the Facility and distribute the security in accordance with existing arrangements specified in the Market Rules. The IMO notes that no amendments to the Market Rules are required to implement this. Currently under clause 4.13.11 a Market Participant is required to operate at a level equivalent to its Certified Reserve Capacity and not its Capacity Credits. In the situation where a Facility has had its Capacity Credits reduced to zero the test level would still be measured against the pre-reduction level (refer to clause 4.12.6 for further details).¹

Any decision by the IMO to reduce the Capacity Credits for a Facility to zero will apply for the whole Capacity Year. If in subsequent years the IMO also considers that the Facility will not be able to make its capacity available for the entire year it will undertake the above prescribed process again. This will provide Market Participants with an opportunity to respond to the IMO's notice of intention for subsequent Reserve Capacity Years in the case where it disagrees that the Facility will not be able to make its capacity available for the

¹ The IMO notes that under RC_2010_12 the IMO has proposed a number of amendments to re-structure the clauses around Reserve Capacity Security. These will improve the integrity of the Market Rules. Any amendments resulting from RC_2010_12 will be taken into account when preparing the final drafting to implement the ability for the IMO to draw down of Reserve Capacity Security when a Facility has had its Capacity Credits reduced to zero.

whole year. Market Participants will not be able to apply for a reassessment of the IMO's decision during the relevant Reserve Capacity Year. This is because allowing a Market Participant to request a reassessment and have its Capacity Credits reinstated during the Capacity Year would:

- create a distortion with the current capacity refund mechanism (as refunds would not always equate to the income received from Capacity Credits in each month); and
- potentially introduce an opportunity for gaming for Facilities which a late completing development.

Where the IMO considers in a subsequent year that a Facility will be able to make its capacity available for the whole Capacity Year, the Market Participant will be required to provide a further Reserve Capacity Security (as the existing security would have been drawn down previously by the IMO).

It is also proposed that any decisions made by the IMO to reduce a Market Participant's Capacity Credits would be a reviewable decision, on appeal to the Electricity Review Board (ERB). The IMO will work with the Office of Energy to include this decision in the list of Reviewable Decisions in the Electricity (Wholesale Electricity Market) Regulations 2004 (WEM Regulations).

2. Explain the reason for the degree of urgency:

The IMO proposes that this Rule Change Proposal be progressed through 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)

The proposed amendment will specify the IMO's decision to reduce a Facility's Capacity Credits to zero as being a reviewable decision. This allows the Market Participant to make an appeal to the ERB in the case where it disagrees with the IMO's decision. The IMO will work with the Office of Energy to include this decision in the list of reviewable decisions in the WEM Regulations.

2.17.1. Decisions by the IMO made under the following clauses are Reviewable Decisions:

...

(kA) clause 4.20.11;

The proposed amendment will specify that where a Facility has had its Capacity Credits reduced by the IMO for a Capacity Year and so its quantity of Capacity Credits is less than the Certified Reserve Capacity for a Facility, then the IMO must reduce the Facility's Reserve Capacity Obligation Quantity to reflect the amount by which Capacity Credits fall short of the Certified Reserve Capacity.

4.12.6. Subject to clause 4.12.7, any initial Reserve Capacity Obligation Quantity set in accordance with clauses 4.12.4, 4.12.5, 4.28B.4, or 4.28C.4 is to be reduced once the Reserve Capacity Obligations take effect, as follows:

- (a) if the aggregate MW equivalent to the quantity of Capacity Credits (as modified from time to time under the Market Rules) for a Facility is less than the Certified Reserve Capacity for that Facility at any time (for example as a result of the application of clause 4.20.1, clause 4.20.11, clause 4.25.4 or clause 4.25.6), then the IMO must reduce the Reserve Capacity Obligation Quantity to reflect the amount by which the aggregate Capacity Credits fall short of the Certified Reserve Capacity;

...

The proposed new clause will specify that a Market Participant who has had its Capacity Credits reduced to zero by the IMO and so forfeited its original security will be required to provide additional security if it wishes to participate in the Reserve Capacity Mechanism in subsequent years.

The IMO notes that further amendments to this clause are proposed under the Rule Change Proposal: Reserve Capacity Security (RC_2010_12). In particular, RC_2010_12 proposes to amend clause 4.13.1 to clarify that Market Participants only need to provide security for a Facility for the first Reserve Capacity Cycle, unless it is for an existing facility which is undergoing significant maintenance or an upgrade. The IMO notes that the drafting as currently proposed takes into account this conceptual change as was agreed 12 May 2010 MAC meeting. Any final amendments to this clause will take into account the IMO's final decision on RC_2010_12.

4.13.1A The obligation under clause 4.13.1 to provide Reserve Capacity Security does not apply where the Market Participant has provided Reserve Capacity Security in relation to the same Facility for a previous Reserve Capacity Cycle, unless IMO has reduced the Capacity Credits assigned to a Facility to zero in accordance with clause 4.20.11.

The proposed new clause will specify that prior to the beginning of each Capacity Year if the IMO becomes aware, either as a result of the progress reports provided by Market Participants or as a result of any additional information it may have available to it, that a

Facility will not make available its capacity it may issue a Notice of Intention to reduce Capacity Credits.

4.20.8. By 1 August of each Capacity Year, if the IMO becomes aware that capacity associated with any Capacity Credits assigned to a Facility will not be made available to the market for an entire Capacity Year, it may issue a Notice of Intention to Reduce Capacity Credits to the Market Participant for that Facility for the Capacity Year.

The proposed new clause will require the IMO to issue a formal notice providing details and the reasoning behind the IMO potentially reducing the number of Capacity Credits assigned to the Facility. It will also provide details of the Capacity Year for which the potential reduction will apply.

4.20.9. A Notice of Intention to Reduce Capacity Credits issued to a Market Participant by the IMO, in accordance with clause 4.20.8, must include:

- (a) the details of the Facility to which the Notice of Intention to Reduce Capacity Credits applies;
- (b) the reasons identified by the IMO for potentially reducing the Capacity Credits assigned to the Facility to zero; and
- (c) the Capacity Year for which the reduction in Capacity Credits assigned to the Facility will apply.

The proposed new clause will allow a Market Participant to make a submission to the IMO for consideration prior to reducing its Capacity Credits to zero. The IMO considers that 15 Business Days will provide sufficient time for the Market Participant to prepare a submission.

Note that there is no firm requirement for a Market Participant to make a submission as it may no longer exist (as a company). In the case where a Market Participant does not make a submission to the IMO regarding this matter, this will be taken into account by the IMO in making its decision.

4.20.10. Within 15 Business Days of being issued a Notice of Intention to Reduce Capacity Credits in accordance with clause 4.20.8, the Market Participant may make a submission to the IMO detailing any reasons it considers should be taken into account by the IMO in making a final determination to reduce the Capacity Credits assigned to the Facility to zero for the Capacity Year.

The proposed new clause will require the IMO to make a decision taking into account any submission made by the relevant Market Participant. The IMO's decision is not sequential on the receipt of a submission from a Market Participant as it is possible that one may not be made. To take this into account the timeframes for the IMO to make a decision are 15

Business Days after the last point at which a Market Participant may have made a submission.

The IMO considers that 15 Business Days will provide it with sufficient time to:

- consider the submission;
- inform and discuss with the IMO Board (if required);
- make a decision; and

4.20.11. Where the IMO has issued a Notice of Intention to Reduce Capacity Credits, in accordance with clause 4.20.8, the IMO must within 30 Business Days decide whether it will reduce Capacity Credits assigned to a Facility to zero for the Capacity Year.

The proposed new clause will require the IMO to notify a Market Participant of its decision regarding whether to reduce the Capacity Credits for a Facility to zero within 5 Business Days.

4.20.12. Where the IMO makes a decision to reduce the Capacity Credits assigned to Facility to zero for the Capacity Year in accordance with clause 4.20.11, it must notify the Market Participant of its decision within 5 Business Days, including:

- (a) the details of the Facility;
- (b) a response to all issues raised by the Market Participant in any submission made in accordance with clause 4.20.10;
- (c) the reasons for the reduction of the Capacity Credits to zero; and
- (d) the Capacity Year for which the reduction in Capacity Credits assigned to the Facility will apply.

The proposed new clause will require the IMO to publish on the Market Web Site the details of any Facilities that have had their Capacity Credits reduced to zero, the associated timeframes for the reduction and the reasons why.

4.20.13. Within 10 Business Days of making a decision, in accordance with clause 4.20.11, the IMO must publish on the Market Web Site the information specified in clause 4.20.12(a), (c) and (d).

The proposed new clause will clarify that where the IMO has made a decision under clause 4.20.12, it will reduce the Capacity Credits for a Facility for the relevant Capacity Year.

4.20.14. Where the IMO has made a decision in accordance with clause 4.20.11, the IMO must reduce the Capacity Credits assigned to the Facility to zero for the Capacity Year specified in clause 4.20.12 (d).

The proposed amendment to clause 4.25.12 will allow the IMO to use the information about the outcome of the Capacity Credit reduction in its assessment of Certified Reserve Capacity, Capacity Credit assignment and setting obligations in the future. This will be similar to if a Facility had its Capacity Credits reduced through the normal testing process.

4.25.12. The IMO may use the results of tests under this clause 4.25, or a reduction of Capacity Credits in accordance with clause 4.20.11 in respect of a Facility in assigning Certified Reserve Capacity and setting Reserve Capacity Obligation Quantities for the Facility for subsequent Reserve Capacity Cycles.

...

The proposed amendment to clause 4.27.10 will take into account the situation where a Facility has had its Capacity Credits reduced to zero. As currently drafted a Market Participant would not be required to provide the IMO with additional progress updates as they would no longer hold capacity credits.

4.27.10. Subject to clauses 4.27.11C and 4.27.10A, Market Participants ~~holding~~ assigned Capacity Credits for Facilities that are yet to commence operation must file a report on progress with the IMO at least once every three months from the date the Capacity Credit is confirmed under clause 4.20.

The proposed amendment to clause 4.27.10A will also take into account the situation where a Facility has had its Capacity Credits reduced to zero.

4.27.10A. Market Participants ~~holding~~ assigned Capacity Credits for Facilities that are yet to commence operation must file a report on progress with the IMO at least once every month between the commencement of the calendar year in which the date referred to in clause 4.10.1(c)(iii)(7) falls and the date the IMO has notified the Market Participant, in accordance with clause 4.13.10A, of its determination, that the need to maintain the Reserve Capacity Security for the Facility has ceased.

The proposed amended clause will define the information specified in clause 4.20.12(a), (c) and (d) as being public information.

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:

...

- (f) the following Reserve Capacity information (if applicable):
- i. Requests for Expressions of Interest described in clause 4.2.3 for the previous five Reserve Capacity Cycles;
 - ii. the summary of Requests for Expressions of Interest described in clause 4.2.7 for the previous five Reserve Capacity Cycles;
 - iii. the Reserve Capacity Information Pack published in accordance with clause 4.7.2 for the previous five Reserve Capacity Cycles;
 - iv. for each Market Participant holding Capacity Credits, the Capacity Credits provided by each Facility for each Reserve Capacity Cycle. In the case of a Market Participant with a Demand Side Programme, the IMO must publish the total Capacity Credits for the programme and not for each Curtailable Load comprising the programme;
 - v. the identity of each Market Participant from which the IMO procured Capacity Credits in the most recent Reserve Capacity Auction, and the total amount procured, where this information is to be published by January 7th of the year following the Reserve Capacity Auction;
 - vi. for each Special Price Arrangement for each Registered Facility:
 1. the amount of Reserve Capacity covered;
 2. the term of the Special Price Arrangement; and
 3. the Special Reserve Capacity Price applicable to the Special Price Arrangement,

where this information is to be current as at, and published on, January 7th of each year;
 - vii. all Reserve Capacity Offer quantities and prices, including details of the bidder and facility, for a Reserve Capacity Auction, where this information is to be published by January 7th of the year following the Reserve Capacity Auction; ~~and~~
 - viii. reports summarising facility tests and reasons for delays in those tests, as required by clause 4.25.11.
 - ix. ~~The~~ the following annually calculated and monthly adjusted ratios:
 1. NTDL_Ratio as calculated in accordance with Appendix 5, STEP 8;
 2. TDL_Ratio as calculated in accordance with Appendix 5, STEP 8; and

3. Total_Ratio as calculated in accordance with Appendix 5, STEP 10; and
- x. for a Facility that has had its Capacity Credits reduced to zero for the Capacity Year, the information specified in clause 4.20.12(a), (c) and (d).

...

Chapter 11: Glossary

Notice of Intention to Reduce Capacity Credits: A notice issue by the IMO under clause 4.20.8 and containing the information required under clause 4.20.9.

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

The IMO considers the changes proposed to allow the IMO to reduce a Facility's Capacity Credits to zero in a situation where the IMO does not consider will make its capacity available to the WEM for the entire Capacity Year.

Impact	Market Objectives
Allow the Market Rules to better address the objective.	a
Consistent with objective.	c, b, d, e
Inconsistent with objective.	

The IMO considers that the proposed amendments will promote Market Objective (a) by ensuring that the estimates of capacity available in a particular Capacity Year reflect the true level of capacity available to the WEM.

By removing the Capacity Credits for a Facility, which the IMO considers will not make its capacity available to the WEM, the actual level of reliable capacity will be appropriately reflected. This will provide System Management with greater certainty that the expected capacity available from new entrants will actually be made available (enhancing the reliability of capacity in the market).

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

Costs:



- There will be some costs associated with the IMO's administration of the process for reducing a Facility's Capacity Credits to zero.

Benefits:

- Greater certainty that reliable capacity is available in the market.
 - Removal of a burdensome requirement (which can last up to 3 years) on all Market Participant's associated with short pay arrangements.
-

Agenda Item 5h: Limits to early entry capacity payments (PRC_2010_30)

1. BACKGROUND

Currently the timeframe for new capacity to enter the Reserve Capacity Mechanism is a four-month window centralised around the start of a new Capacity Year on 1 October (the window for entry is between 1 August and 30 November). This timeframe allows new Facilities to enter the market and receive the benefit of Capacity Credits and any associated income stream from 1 August of Year 3 of the Reserve Capacity Cycle. The current window of entry applies for Reserve Capacity Cycles up to and including 2009.

In 2009, the IMO proposed to retain the four month window of entry but brought the window forward to start on 1 June, with all capacity to be fully available no later than 1 October each year¹. This new timeframe allows new Facilities to enter the market and receive the benefit of Capacity Credits and any associated income stream from 1 June of Year 3 of the Reserve Capacity Cycle. This changed window of entry applies for Reserve Capacity Cycles from 2010 onwards.

Alinta has submitted a Pre-Rule Change Discussion Paper which seeks to preclude any newly accredited Facility's that are not Scheduled or Non-Scheduled Generators from being able to receive Capacity Credit payments prior to the close of the Reserve Capacity window in the year that the Reserve Capacity Obligation first applies. That is 1 December of Year 3 of the Reserve Capacity Cycle for Reserve Capacity Cycles up to and including 2009 and thereafter 1 October.

2. ISSUES

The IMO agrees that consideration should be given to the Rule Change Proposal, however the IMO considers that *any* newly accredited Facility should be able to receive Capacity Credit payments from the start of the Capacity Year (i.e. 1 October of Year 3 of the Reserve Capacity Cycle) not the end of the Reserve Capacity window *if* that capacity is available to the Wholesale Electricity Market. This is because the IMO procures capacity for the entire Capacity Year and that if a Facility is available at the start of a Capacity Year, then it should be entitled to receive payment for such availability.

Discussion Point 1: For the 2009 Reserve Capacity Cycle should newly accredited Facility's that are not Scheduled or Non-Scheduled Generators be precluded from being able to receive Capacity Credit payments prior to the close of the Reserve Capacity window or prior to the start of Year 3 of the Reserve Capacity Cycle .

3. RECOMMENDATIONS

The IMO recommends that the MAC:

- **Discuss** the issue raised in section 2; and
- **Discuss** whether PRC_2010_30 should be formally submitted.

¹ www.imowa.com.au/RC_2009_11

Agenda item 5h, appendix 1:

Wholesale Electricity Market Pre Rule Change Proposal Form

Change Proposal No: *[to be filled in by the IMO]*
Received date: *[to be filled in by the IMO]*

Change requested by:

Name:	Corey Dykstra
Phone:	9486 3749
Fax:	9221 9128
Email:	corey.dykstra@alinta.net.au
Organisation:	Alinta Sales Pty Ltd
Address:	Level 9, 12-14 The Esplanade, PERTH WA 6000
Date submitted:	<date submitted to the IMO>
Urgency:	1 - High
Change Proposal title:	Limits to early entry capacity payments
Market Rule(s) affected:	4.1.26

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 Development and System Capacity
PO Box 7096
Cloisters Square, Perth, WA 6850
Fax: (08) 9254 4339
Email: market.development@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.

Details of the proposed Market Rule Change

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

Rule Change Proposal

The Rule Change Proposal is for any **newly** accredited Facility that is not a Scheduled or a Non-Scheduled Generator to be precluded from being able to receive capacity payments prior to the close of the reserve capacity window in the year that the Reserve Capacity Obligation first applies (i.e. 1 December 2011 and thereafter 1 October).

The effect of the proposed rule change would be to preclude **newly** accredited Curtailable Loads, Dispatchable Loads and Interruptible Loads from being able to receive capacity payments prior to 1 December 2011 or thereafter 1 October in the year that the Reserve Capacity Obligation first applies.

Background

Capacity from newly accredited Facilities may currently be made available to the market at any time during a four-month window (currently between 1 August and 30 November) centralised around 1 October. Market Participants are able to nominate any date within the window, and may revise their expected entry date as the project nears completion.

It is understood that the objective of allowing 'new' Facilities to enter the market and receive Capacity Credit payments from as early as 1 August was to encourage 'new' Scheduled or Non-Scheduled Generators to enter the market as early as possible, so that should there be any subsequent delays in commissioning and/or unplanned outages (i.e. Forced Outages) then these events would be less likely to affect the security and reliability of the power system over the summer period when demand reaches system peaks.

From 2012 onwards, the four-month window will shift, so that capacity payments may be received as early as 1 June in the year that the Reserve Capacity Obligation first applies.

The early entry of new capacity imposes a financial cost on the market as the capacity price is not adjusted to account for the additional capacity made available to the market. However, it appears that this additional cost has been judged as being appropriate in order to support the effective commissioning of new scheduled or non-scheduled generation, which then reduces the risk to power system security and reliability over the summer period when demand reaches system peaks.

Reason for the Rule Change Proposal

An outcome of the early entry provisions of the Market Rules is that capacity provided by any newly accredited Facility is able to receive capacity payments as early as 1 August (or 1 June from 2012) in the year that the Reserve Capacity Obligation first applies. Such newly accredited 'Facilities' include capacity from Curtailable Loads, Dispatchable Loads and Interruptible Loads.

- For capacity year 2011/12, which commences on 1 October 2011, if all of the estimated capacity provided by newly accredited Curtailable Loads sought to receive capacity payments from 1 August 2011, the estimated additional cost to the market would be around \$2.5 million.
- For capacity year 2012/13, which commences on 1 October 2012, it is estimated that more than 400 MW of Curtailable Load has been accredited, which represents an increase of around 200 MW on the amount accredited for the 2011/12 capacity year. If all of the estimated capacity provided by these newly accredited Curtailable Loads sought to receive capacity payments from 1 June 2012, the estimated additional cost to the market would be around \$8.5 million.

Alinta considers that the risk to power system security and reliability associated with capacity provided by newly accredited Facilities that are not Scheduled or Non-Scheduled Generators differs materially to that of newly accredited Scheduled or Non-Scheduled Generators.

This is principally because capacity provided by newly accredited Facilities that are not Scheduled or Non-Scheduled Generators (i.e. Curtailable Loads, Dispatchable Loads and Interruptible Loads) are typically existing loads, and so would not be expected to require an extended period to ensure they are 'commissioned'. Even if newly accredited Curtailable Loads, Dispatchable Loads and Interruptible Loads were not existing loads, it appears unlikely that capacity provided by such loads would represent a risk to the security and reliability of the power system over the summer period when demand reaches system peaks.

Consequently, Alinta considers that the additional cost to the market of **newly** accredited Facilities that are not Scheduled or Non-Scheduled Generators receiving capacity payments prior to 1 October in the year that the Reserve Capacity Obligation first applies cannot be justified based on the reduction in risk to power system security and reliability over the summer period when demand reaches system peaks.

2. Explain the reason for the degree of urgency:

It appears that for the 2009/10 capacity year, a significant proportion of the capacity from newly accredited Facilities that were not Scheduled or Non-Scheduled Generators sought to receive capacity payments from the earliest possible date, being 1 August 2010.

It appears reasonable to assume that for future capacity years, capacity from newly accredited Facilities that were not Scheduled or Non-Scheduled Generators will similarly seek to receive capacity payments from the earliest possible date, being 1 August 2011 and then from 1 June each year.

Given the unprecedented increase in capacity being made available to the market from newly accredited Facilities that are not Scheduled or Non-Scheduled Generators, the resulting cost to the market will be significant.

As noted above, it is considered that the additional cost imposed on the market due to **newly** accredited Facilities that are not Scheduled or Non-Scheduled Generators receiving capacity payments prior to 1 October in the year that the Reserve Capacity Obligation first applies cannot be justified based on the reduction in risk to power system security and reliability over the summer period when demand reaches system peaks.

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)

4.1.26. Reserve Capacity Obligations apply:

(a) in the case of the first Reserve Capacity Cycle:

- i. from the Initial Time, for Facilities that were commissioned before Energy Market Commencement;
- ii. from the Trading Day commencing on the scheduled date of commissioning, as specified in accordance with clause 4.10.1(c)(iii)(7), for Scheduled Generators and Non-Scheduled Generators commissioned between Energy Market Commencement and 30 November 2007, inclusive; and
- iii. from the Trading Day commencing on 1 October 2007 for Interruptible Loads, Curtailable Loads or Dispatchable Loads commissioned after Energy Market Commencement; and

(b) for subsequent Reserve Capacity Cycles up to and including 2009:

- i. from the Trading Day commencing on 1 October of Year 3, for Facilities that were commissioned as at the scheduled time of the Reserve Capacity Auction for the Reserve Capacity Cycle as specified in clause 4.1.18(a) or for Facilities which have provided Capacity Credits in one or both of the two previous Reserve Capacity Cycles; and

- ii. from the Trading Day commencing on the scheduled date of commissioning, as specified in accordance with clause 4.10.1(c)(iii)(7), or as revised in accordance with clause 4.27.11A or clause 4.27.11D, for Scheduled and Non-Scheduled Generation Facilities commissioned between 1 August of Year 3 and 30 November of Year 3-; and
- iii. from the Trading Day commencing on 1 December of Year 3, for Interruptible Loads, Curtailable Loads or Dispatchable Loads; and

(c) for subsequent Reserve Capacity Cycles from 2010 onwards:

- i. from the Trading Day commencing on 1 October of Year 3, for Facilities that were commissioned as at the scheduled time of the Reserve Capacity Auction for the Reserve Capacity Cycle as specified in clause 4.1.18(a) or for Facilities which have provided Capacity Credits in one or both of the two previous Reserve Capacity Cycles; and
- ii. from the Trading Day commencing on the scheduled date of commissioning, as specified in accordance with clause 4.10.1(c)(iii)(7), or as revised in accordance with clause 4.27.11A or clause 4.27.11D, for Scheduled and Non-Scheduled Generation Facilities commissioned between 1 June of Year 3 and 1 October of Year 3-; and
- iii. from the Trading Day commencing on 1 October of Year 3, for Interruptible Loads, Curtailable Loads or Dispatchable Loads.

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

Market Rule 2.4.2 states that the IMO must not make Amending Rules unless it is satisfied that the Market Rules, as proposed to be amended or replaced, are consistent with the Wholesale Market Objectives. The 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.

Alinta considers that the Rule Change Proposal as proposed to be amended or replaced, are consistent with, and better achieve, the Wholesale Market Objectives. Specifically, Alinta considers that the Rule Change Proposal would:

- better achieve Market Objective (a) as it would reduce the cost to the market by not paying for new capacity where such payment does not provide commensurate market benefits;
 - better achieve Market Objective (b) as it removes an incentive for the inefficient early entry of capacity from Facilities that are not Scheduled or Non-Scheduled Generators;
 - better achieve Market Objective (c) by avoiding discrimination in that market against particular energy options and technologies, as the need to commission Scheduled and Non-Scheduled Generators makes it practically impossible for capacity from these Facilities to be made available to the market at the start of the reserve capacity window (i.e. 1 August 2011 or 1 June thereafter);
 - better achieve Market Objective (d) by minimising the long-term cost of electricity supplied to customers from the South West interconnected system; and
 - is not inconsistent with Market Objective (e).
-

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

Alinta has not been able to identify that there would be any costs associated with the Rule Change Proposal.

As outlined above, if all of the estimated capacity provided by newly accredited Curtailable Loads sought to receive capacity payments in 2011 and 2012, the estimated additional cost to the market would be around \$11 million.

It appears reasonable to assume that for future capacity years, capacity from newly accredited Facilities that were not Scheduled or Non-Scheduled Generators will similarly seek to receive capacity payments from the earliest possible date, being 1 June each year.

Given the unprecedented increase in capacity being made available to the market from newly accredited Facilities that are not Scheduled or Non-Scheduled Generators, the resulting cost to the market will be significant.



Agenda Item 6a: Overview of Recent and Upcoming IMO and System Management Procedure Change Proposals

Legend:

Shaded	Shaded rows indicate procedure changes that have been completed since the last MAC meeting.
Unshaded	Unshaded rows are procedure changes still being progressed.

Change ID	Title	Brief overview of changes	Status	Next Step(s)	Date
IMO Procedure Change Proposals					
PC_2009_09	Supplementary Reserve Capacity (SRC)	<p>The proposed new Market Procedure describes the process that the IMO and System Management will follow in:</p> <ul style="list-style-type: none"> • acquiring Eligible Services, • entering into SRC Contracts; • determining the maximum contract value per hour of availability for any contract; and • Details the information that is required to be exchanged. <p>This Market Procedure needs to be published (as required by the Market Rules) and will be revised following any rule changes (if applicable).</p>	Undergoing further development.	<ul style="list-style-type: none"> • The IMO to update with comments from Working Group meeting. • The IMO will present updated version of the Market Procedure to Working Group (October 2010). • The IMO to submit into the Procedure Change Process. 	26 October 2010
PC_2010_01	Procedure Administration	The proposed update is to revise to conform to recently adopted style changes.	Final Report being prepared.	<ul style="list-style-type: none"> • The IMO to publish Final Report. 	October 2010

Change ID	Title	Brief overview of changes	Status	Next Step(s)	Date
PC_2010_02	Notices and Communications	The proposed update is to revise to conform to recently adopted style changes.	Final Report being prepared.	<ul style="list-style-type: none"> The IMO to publish Final Report. 	October 2010
PC_2010_03	Monitoring Protocol	<p>The proposed updates are to:</p> <ul style="list-style-type: none"> Allow the IMO to disclose the identity of System Management as a participant that notifies us of alleged breaches; and Update to conform to recently adopted style changes. 	Undergoing further development.	<ul style="list-style-type: none"> The IMO will present updated version of the Market Procedure to Working Group (October 2010). The IMO to submit into the Procedure Change Process. 	26 October 2010
PC_2010_04	Determination of the Maximum Reserve Capacity Price	<p>The proposed updates are to reinstate the 2009 MRCP Major Component values (removed as part of PC_2009_12).</p> <p>N.b. This Market Procedure has not been updated to reflect the IMO's recently adopted style given it is currently under further review by the MRCPWG. Further changes are expected following this the outcomes of the MRCPWG.</p>	Final Report being prepared.	<ul style="list-style-type: none"> The IMO to publish Final Report. 	4 October 2010
PC_2010_05	Reserve Capacity Performance Monitoring	<p>The proposed updates are to:</p> <ul style="list-style-type: none"> Include the changes to the Amending Rules arising from RC_2010_11, RC_2009_19 and RC_2010_02; Update to conform to recently adopted style changes. 	Undergoing further development.	<ul style="list-style-type: none"> The IMO will present updated version of the Market Procedure to Working Group (October 2010). The IMO to submit into the Procedure Change Process. 	26 October 2010
PC_2010_06	Certification of Reserve Capacity	<p>The proposed updates are to:</p> <ul style="list-style-type: none"> ensure that an appropriate amount of CRC for each Facility is set, and allow the IMO to determine the viability of a new project and its 	Out for submissions	<ul style="list-style-type: none"> Submissions close. 	19 October 2010

Change ID	Title	Brief overview of changes	Status	Next Step(s)	Date
		<p>prospects of proceeding through to completion before the start of the relevant Capacity Year</p> <ul style="list-style-type: none"> specify the steps for applying for and approving Early Certified Reserve Capacity. This will ensure consistency with the Rule Change Proposal: Early Certified Reserve Capacity (RC_2009_10); and improve the integrity of the Market Procedure by including a number of minor and typographical amendments. 			
System Management Procedure Change Proposals					
PPCL0016	Monitoring and Reporting Protocol	<p>The proposed updates are to provide further details around how System management will determine and review the annual Tolerance Range and any Facility Tolerance Ranges to apply for the purposes of clause 7.10.1 and 3.21 of the Market Rules.</p> <p>The proposed updates will ensure consistency with the requirements of RC_2009_22 and in particular the new clause 2.13.6K.</p>	Under development	To be discussed at the System Management Procedures Working Group meeting.	5 October 2010
	Dispatch	The proposed updates are to allow for discretion to be exercised in requesting daily dispatch profiles from Market participants with facilities smaller than 30 MW.	Under development	To be discussed at the System Management Procedures Working Group meeting.	5 October 2010

Agenda Item 7a: Working Group Overview

1. WORKING GROUP OVERVIEW

Working Group (WG)	Status	Date commenced	Date concluded	Latest meeting date	Next scheduled meeting date
Reserve Capacity 2007 WG	Closed	Feb 07	May 07	-	-
NTDL WG	Closed	Oct 07	Nov 07	-	-
Energy Limits WG	Closed	Dec 07	Jan 08	-	-
DSM WG	Closed	Jan 08	May 08	-	-
SRC WG	Closed	Jun 08	Sept 08	-	-
Reserve Capacity 2008/09 WG	Closed	Dec 08	Jan 09	-	-
Renewable Energy Generation WG	Active	Mar 08	Ongoing	02/09/2010	TBA
System Management Procedures WG	Active	Jul 07	Ongoing	05/10/2010	TBA
IMO Procedures WG	Active	Dec 07	Ongoing	27/07/2010	26/10/2010
Maximum Reserve Capacity Price WG	Active	May 10	Ongoing	15/09/2010	TBA
Rules Development Implementation WG	Active	Aug 10	Ongoing	11/10/2010	02/11/2010

2. WORKING GROUP MEMBERSHIP UPDATES

In accordance with the Terms of Reference (ToR) the Market Advisory Committee (MAC) must approve the appointment and substitution of members for the System Management Power System Operation Procedures Working Group.

The MAC has received requests from:

- Pete Ryan to replace Shane Cremin as Griffin Energy's representative; and
- Michael Frost to replace James Heng as Perth Energy's representative.

The Updated ToR (with tracked changes) is attached as Appendix 1.

3. RECOMMENDATIONS

The IMO recommends that the MAC:

- **Agree** the proposed amendments to the membership of the System Management Power System Operation Procedures Working Group.

Agenda Item 7a: Appendix 1

Terms of Reference

The System Management Procedure Change and Development Working Group

SCOPE

The Working Group's scope of work includes consideration; assessment and development of changes to System Management Market Procedures which the Market Rules require System Management to develop. A Report on each Procedure Change proposed by the Working Group will be provided to MAC which demonstrates that the proposed change is consistent with the Wholesale Market Objectives and the Market Rules.

MEMBERSHIP AND PROCESS

- Members of the Working Group are appointed and substituted by MAC.
- The members of the Working Group are:

Phil Kelloway (Chair)	-	System Management
Debra Rizzi	-	Industry Representative, Alinta Limited
Shane Gremin <u>Pete Ryan</u>	-	Industry Representative, The Griffin Group
James Heng <u>Michael Frost</u>	-	Industry Representative, Perth Energy
Rene Kuypers	-	Industry Representative, Infigen Energy
Steve Gould	-	Industry Representative, Landfill Gas & Power
Nick Walker	-	Verve Representative
Wesley Medrana	-	Synergy Representative
TBD	-	System Management
Fiona Edmonds	-	IMO
Jacinda Papps	-	IMO
- An issue can be referred to the Working Group for consideration by MAC or the IMO. Generally, issues referred to the Working Group will relate to proposed Procedure Changes.
- The Working Group will meet as required to provide MAC and the IMO with a detailed analysis and advice regarding the issue referred to them.
- The Working Group will consider and develop, where appropriate, Procedure changes within the timeframes set by the Chair with respect to each proposed Procedure change.
- Procedure Changes proposed by the Working Group must be consistent with the Wholesale Market Objectives and the Market Rules
- Members are expected to attend as many Working Group meetings as practicable.
- MAC may review, amend and extend these terms of reference, as necessary.

Agenda Item 7b: REGWG Update

1. UPDATE ON REGWG WORK PACKAGES

The Renewable Energy Generation Working Group (REGWG) last met on 2 September 2010. At this meeting the following was discussed:

- Work Package 2: Option decision; and
- Work Package 3: Review of Recommendations.

A final REGWG meeting will be held to review the minutes from the 2 September meeting and the close out report for the MAC. Details of the time and date will be provided to members in due course.

Work Package 2: Valuing the Capacity of Intermittent Generation in the South-West interconnected system of Western Australia

During the 2 September 2010 meeting there was substantial discussion of which option should be adopted for valuing the capacity of Intermittent Generators in the WEM. The REGWG was unable to reach consensus on a valuation methodology. As such all members of the REGWG entrusted the IMO to recommend a solution to the MAC for consideration.

The IMO will provide this recommendation to MAC at a later date.

Work Package 3 - Assessment of Frequency Control Services

The REGWG discussed each of ROAM Consulting's recommendations during the meeting. The following points summarise the agreement of the REGWG:

- **Competitive Procurement of Ancillary Services:** System Management should continue its work to develop a market based mechanism for Ancillary Services and present its solution to the Rules Development Implementation Working Group (RDIWG).
- **Dispatch Merit Order:** The issue of the Dispatch Merit Order and potential wind curtailment should be reviewed by the RDIWG.
- **Technical Rules:** ROAM's recommendations should be amended to state that ramp rate limits should not be applied to individual intermittent wind farms for the purpose of reducing Load Following requirements.
- **Wind Correlation:** This recommendation regarding the establishment of a wind correlation review will not be progressed further.
- **Ancillary Services Cost Allocation:** ROAM should further consider:
 - how the impact of Scheduled Generator deviations from dispatch targets can be reflected in the allocation of Load Following costs;



- the suggested simplifications made by Verve Energy and the opportunity for stage implementation of the proposed amendments to the Market Rules; and
- the use of a proportioning approach and prepare a comparison of this approach and the difference based approach to Load Following cost allocation.

The IMO has requested ROAM to consider these additional areas. Any subsequent amendment to the ROAM recommendations will be reflected in the Rule Change Proposal that will be submitted to MAC.

2. RECOMMENDATIONS

It is recommended that the MAC:

- **Note** this update.

Agenda Item 7c: MRCPWG Update

1. OVERVIEW OF PROGRESS TO DATE

The Maximum Reserve Capacity Price Working Group (MRCPWG) last met on 15 September 2010. The next meeting date is to be confirmed by the IMO contingent on the two Consultant work scopes for reviewing the WACC and deep transmission cost methodologies.

These documents have recently been issued for tender, with appointments due to be made by the IMO by mid-October.

The MRCPWG has now completed reviewing the cost components, though noting those which require the further advice of the Consultants. The following elements have been agreed by the MRCPWG to date:

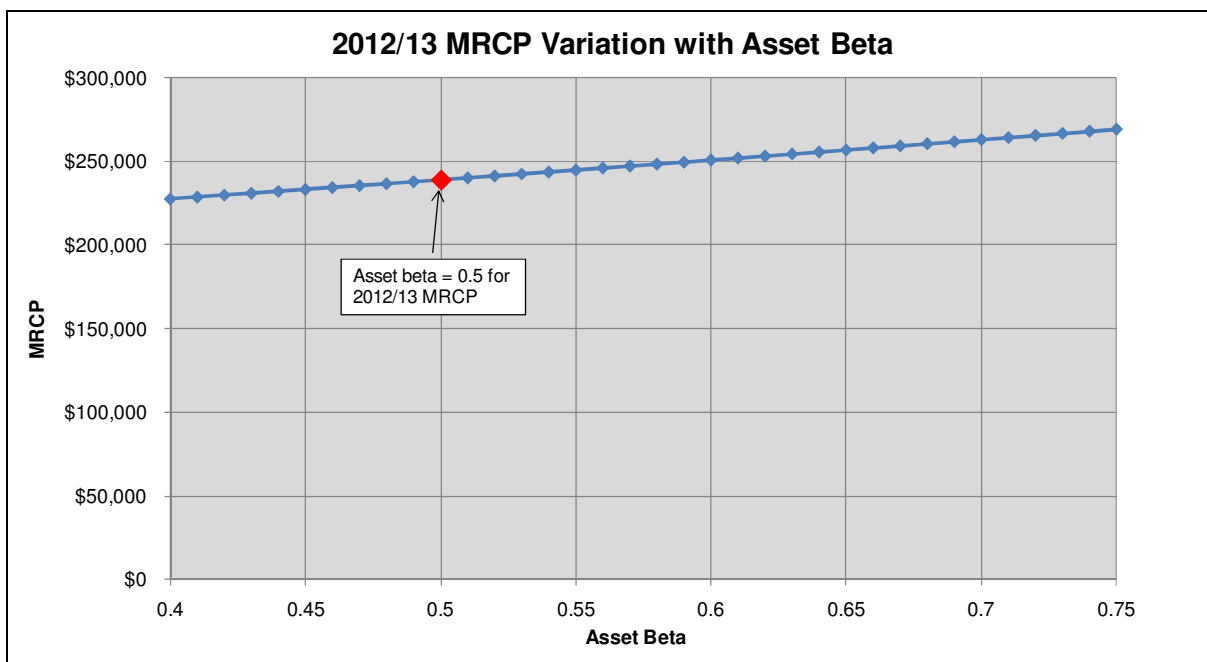
- The appropriate power station type is an Open Cycle Gas Turbine with low NOx burners and inlet cooling, operating on distillate with 2% capacity factor;
- The appropriate quantity of capacity is 160 MW, provided as a single 160 MW facility;
- The summer de-rating factor (SDF) should be specified by the Consultant who develops the power station costs, according to available turbine and inlet cooling technology, and taking into account humidity conditions, replacing the value of 1.18 currently indicated in the Market Procedure;
- Western Power is the appropriate party to determine transmission connection costs;
- The IMO should continue to determine the WACC with the ERA reviewing this in its approval of the MRCP in accordance with clause 2.26.1 of the Market Rules;
- The Fixed Fuel Cost should include an allowance to maintain sufficient fuel levels for 14 hours of operation at all times, not 12 hours as currently indicated in the Market Procedure;
- The current methodology for determining Fixed Operation and Maintenance Costs is appropriate;
- Landgate is the appropriate party to provide a valuation on Land costs;
- The current list of land locations is appropriate, although there should be greater flexibility to add to the list where appropriate;
- Uplift factors for construction costs in the current list of locations should be specified by the Consultant;
- Land, Transmission and Construction Costs should be optimised to determine the cheapest location; and
- A Market Participant may not be required to purchase any required buffer zone if the facility was located in an industrial precinct, so the land size should be standardised to 3 ha with the stipulation that the buffer zone must exist where required.

2. ASSUMPTION THAT RESERVE CAPACITY AUCTION IS HELD

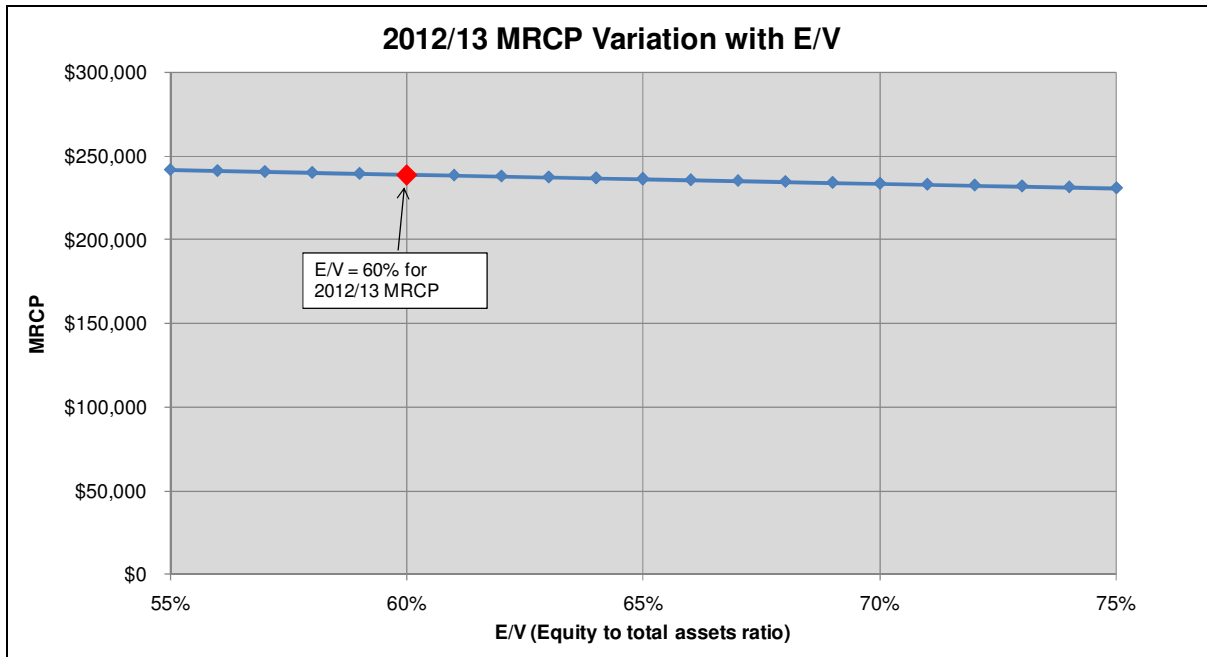
At the 8 September 2010 MAC meeting, the IMO noted that the Chair of the MRCPWG had raised concerns about the application of the MRCP framework. This framework is currently based on the assumption that capacity is successfully scheduled through a Reserve Capacity Auction and receives a 10-year Special Price Arrangement. The issue is that this assumption may affect the way the WACC is determined.

The MAC requested that the IMO undertake further analysis of the impact of removing the assumption that a Reserve Capacity Auction is held and that capacity scheduled through this consequently receives a 10-year Special Price Arrangement.

As indicated above, the auction assumption implies a 10-year price guarantee, known as a Long Term Special Price Arrangement. The removal of this guarantee may expose the asset to downside price risk. This is likely to lead to an increase in the beta value for the asset, however significant further analysis would be required to estimate the magnitude of this increase. The graph below shows the impact that variation of the asset beta would have had on the MRCP calculated for the 2012/13 Capacity Year, with all other parameters remaining constant.



It is also possible that the greater downside price risk may reduce the quantity of debt that could be raised for the project. If all other parameters remained constant, a reduction in the debt-to-equity ratio would lead to a reduction in the equity beta, the WACC and the MRCP, potentially counteracting some or all of the increase in asset beta. The graph below shows this impact on the MRCP calculated for the 2012/13 Capacity Year.



3. RECOMMENDATIONS

It is recommended that the MAC:

- **Note** this update; and
- **Discuss** the outcomes of the IMO's assessment of the impact of removing the current WACC assumption that an auction is held.

Agenda Item 7d: RDIWG Update

1. OVERVIEW OF PROGRESS TO DATE

The Rules Development Implementation Working Group (RDIWG) met on 30 September 2010.

At this meeting the following was agreed/discussed:

- Proposed timing for the Market Evolution Program;
- Options for realignment of Scheduling Day timelines – there was agreement to undertake further analysis of the following options to support the realignment of Scheduling Day timelines:
 - options for earlier provision of BOM forecast data;
 - options for extending deadlines for gas nominations;
 - provision of wind generation forecasts to Market Participants by System Management, in the same timeframe as for load forecasts;
 - extending the duration of the STEM and Resource Plan Submission windows, e.g. to a week or more, and in particular allowing the STEM Submission window to open before the closure of the Bilateral Submission window;
 - publication of STEM results as soon as they can be calculated by the IMO; and
 - provision of gross Bilateral Submissions by gentailers.
- Presentation on Balancing Price formation – there was agreement that:
 - the IMO will undertake further analysis on the causes of MCAP and clean balancing price differences;
 - inconsistencies between quantities included in the Relevant Quantity calculation and the MCAP price curve should be addressed;
 - conditional upon achieving competition in the provision of the balancing service, the balancing price curve should only include balancing resources (i.e. clean pricing); and
 - DDAP/UDAP penalties should be removed, or set to lower levels, better reflecting impacts on balancing requirements.

The RDIWG also met on 11 October 2010. The following agenda items were discussed:

- Presentation on Balancing Provision Options;
- Presentation on Capacity Cost Refunds; and
- Updates-



- Balancing Pricing;
- Impact of bringing forward the opening of the STEM and Resource Plan submission windows; and
- Market Participants Scheduling Day processes.

A verbal update of this meeting will be provided at the MAC meeting.

4. RECOMMENDATIONS

It is recommended that the MAC:

- **Note** this update.

Agenda Item 8a: Marchmont Hill Options for selection of Discretionary Class members report

1. BACKGROUND

Each year the IMO is required to review the composition of the MAC. Following the 2010 review a Market Participant raised concerns with the method for selecting Discretionary Class members and the involvement of the IMO in the process.

As a result of this, the IMO appointed Marchmont Hill Consulting (MHC) to review different options for selecting Discretionary Class members for the MAC. MHC's report is attached to this paper, and MHC will attend the MAC meeting to present its recommendation.

The report examines different selection process for boards in electricity markets in other jurisdictions, where they are used and their scope for being applied to the Wholesale Electricity Market (WEM). MHC reviewed the following selection methodologies (and various hybrids):

- The IMO electing the MAC representatives;
- Market participants electing their own MAC representatives; and
- An independent body electing the MAC representatives.

In evaluating the alternatives, MHC considered that the new method had to ensure that the selection process overcame the problems of:

- Obtaining the universal skills, knowledge and experience needed across the group overall;
- Obtaining an adequate degree of representation across different participants and classes of participants; and
- Having a group of such a size that it can effectively debate and resolve issues and make recommendations if necessary.

The report made the recommendation that a hybrid model would best suit the WEM. The hybrid model allows both Market Participants and the IMO to be involved in the selection process with the MAC determining the final composition by matching the candidates' qualifications against the identified skill requirements.

2. RECOMMENDATIONS

The IMO recommends that the MAC:

- **Note** this paper;
- **Discuss** the recommendation that a hybrid model be adopted where both market participants and the Market Operator are involved in the Discretionary Class member selection process.



Market Advisory Committee

Options for selection of Discretionary Class members

Version 1.1

Final report

1 Introduction

Background

In 2006 the Independent Market Operator (IMO) established the Market Advisory Committee (MAC). The purpose of the MAC is to provide a communication forum about rule changes, procedure changes and electricity market operation matters. Key responsibilities of the MAC include:

- Review rules changes and issues papers
- Advise the IMO on the market impacts of proposed rule changes
- Provide advice on whether the IMO should conduct a rules change process
- Advise the IMO regarding matters concerning the evolution of the Market Rules.
- Make recommendations on resolution of an issue (in practice the MAC seldom makes recommendations).

The MAC comprises:

- Compulsory members: Verve Energy, Synergy, System Management, the IMO and a Ministerial nominee
- Discretionary members, the appointment of whom is the subject of this paper.

Purpose

The IMO has appointed Marchmont Hill Consulting (MHC) to advise on the current framework for deciding MAC discretionary membership and the guidelines for making merit based appointments.

Industry participants have previously raised concerns as to the size of the MAC and whether the IMO is the appropriate party to appoint Discretionary Class members.

A key requirement for any advisory group is ensuring that the group collectively possesses the skills, knowledge and experience necessary to provide high-quality advice. Some of those attributes can be considered universal (for example, knowledge of the market rules) but some may also be specific to a market participant or class of participant. Thus the problem of selection has multiple dimensions:

- Obtaining the universal skills, knowledge and experience needed across the group overall
- Obtaining an adequate degree of representation across different participants and classes of participant
- Having a group of a size such that it can effectively debate and resolve issues and make recommendations if necessary.

2 Committee Selection Models

While a wide range of approaches are used for appointment of advisory committees in electricity markets around the world, the key decision on appointment can be characterized as being made either by:

- The Market Operator
- The participants
- Somebody else independent of the operation of the market

In this section those alternatives are described, including other jurisdictions where they are in use and how they might work in Western Australia.

Current model

As part of the MAC member appointment process, IMO consults with, and request nominations from, Rule Participants and industry groups that it considers relevant to the Wholesale Electricity Market (WEM), and if practicable, appoints members from those nominated. The IMO has recently published its appointment guidelines to clarify the basis upon which it makes its appointments but ultimately, appointments are determined by the IMO and not by market participants.

The Market Rules currently state that the MAC must comprise¹:

- a. *three members representing Market Generators, of whom one will represent the Electricity Generation Corporation (Verve Energy);*
- b. *one member representing Contestable Customers;*
- c. *at least one and not more than two members representing Network Operators, of whom one will represent the Electricity Networks Corporation (Western Power);*
- d. *three members representing Market Customers, of whom one will represent the Electricity Retail Corporation (Synergy);*
- e. *one member nominated by the Minister to represent small-use consumers;*
- f. *one member representing System Management;*
- g. *one member representing the IMO; and*
- h. *a Chairperson, who will be a representative of the IMO.*

The Minister and the ERA may also each appoint a representative to attend MAC meetings as observers, as outlined in clauses 2.3.6 and 2.3.7 of the Market Rules.

The IMO annually reviews the composition of the MAC and may appoint and/or remove members.

¹ The composition requirements for the MAC are currently being reviewed (Rule Change Proposal 15).

The assessment of nominations is carried out by the MAC Evaluation Panel, comprising a small group of IMO employees drawn from outside the Market Development team. The Chair of the MAC evaluation Panel was an IMO Market Development representative. The first stage of the evaluation process involves determining whether the nominees meet the pre-qualification requirements, compliance criteria. Nominees are also asked to provide capability statements that allow the Panel to qualitatively assess their skills, knowledge and experience. The pre-qualification requirements are set out in the appointment guidelines.

Once the MAC Evaluation Panel has reviewed each nomination they undertake a skills gap assessment to highlight any weaknesses the MAC would have if the highest rated nominees were appointed. The final shortlist is then presented to the IMO Chief Executive Officer who recommends the representatives to the IMO Board for endorsement.

Some obvious benefits of having the IMO select Discretionary Class members include:

- Having a single party responsible for selecting all of the members provides greater certainty that the MAC will contain an appropriate balance of skills – for example, representatives with backgrounds covering engineering, economics and finance.
- As the Market Operator, the IMO has a detailed understanding of WEM market issues. Having a highly knowledgeable party select Discretionary class members should allow candidate assessment and selection to be done efficiently.

However, there are some limitations with the current model. Being excluded from the selection process, market participants may not feel confident that the MAC members selected to represent them will necessarily be the best candidates to do so. The MAC Appointment Guidelines are also quite broad in terms of the criteria they specify for selection of MAC members. Section 4.2 of the Guidelines states that:

The IMO will take into account, but is not limited to, the following expected skills, knowledge and experience of the MAC (as a body) when making appointment decisions:

- a. Knowledge and/or demonstrated experience of energy sector issues;*
- b. Broad understanding of the technical, design and commercial aspects of the WEM;*
- c. Ability to contribute to the MAC and the Wholesale Market Objectives;*
- d. Ability to work as a member of a small team;*
- e. Ability to assess proposed rule and procedure changes against the Wholesale Market Objectives;*
- f. Demonstrated ability to understand the subject matter proposals made to the MAC;*
- g. Ability to consider market design issues and options for the evolution of the Market Rules;*
- h. Understanding of the Market Rules and other relevant legislation; and*
- i. Knowledge of the powers and obligations of both the IMO and System Management and the frameworks in which they operate.*

The Guidelines allow the IMO to consider other criteria and it would appear that it does so (for example, the balance of technical qualifications overall). The guidelines also require the IMO to make its evaluation available to interested parties. However in some respects it would be preferable for all criteria to be available to participants in advance to allow the market to put forward the most appropriate candidates and to remove any perception that the outcome is not objectively determined.

Possible alternative models

The three alternatives considered were:

- Market participants elect their own MAC representatives. Under this arrangement, the IMO would request and review nominations from market participants for MAC positions in each of a number of participant classes. The IMO would then run a ballot process for positions where more nominations were received than vacancies. Market participants would only be allowed to vote for nominees in the same participant class as themselves.

This model is similar to the approach used in the National Energy Market for selection of Information Exchange Committee (IEC) members. The IEC is responsible for recommending B2B strategies and procedures that could result in changes to market compliance requirements. Because the impacts of changes to information exchange standards vary between classes of participants, there would seem to be a clear case for strong representation of participant-class interests on the IEC.

MHC considers this model to be appropriate for situations where the committee or group:

- Is responsible for areas where the subject matter has a strong potential to affect different classes of market participants differently
- Has responsibility for *recommending* matters, as opposed to simply advising a decision-making body. In these circumstances, members must be able to act in a way that properly reflects the interests of the group they have been chosen to represent. Having parties vote for their representatives ensures that the appointed parties reflect (at least the majority of) their group's interests.

Possible variations of this option would include:

- Having separate committee comprising market participants to appoint MAC members. This selection model is used for the Market Implementation Committee (MIC) in the Pennsylvania, Jersey, Maryland (PJM) Power Pool. The role of the MIC is to initiate and develop proposals to improve competitive wholesale electricity markets in the PJM region. The PJM serves 13 states and the District of Columbia, and has approximately 11 committees that provide technical advice on market issues and opportunities. This

approach would ensure that the representatives appointed reflect the interests of the groups comprising the appointment committee, and could be useful where there are large numbers of participants with the potential to offer candidates. However MHC believes that the effort and costs to establish an additional selection committee is unwarranted for the MAC given that the WA market is much smaller and less diverse than PJM.

- Having additional independent members to fill any skills gaps. This approach is used in the Singapore Electricity Market among others, where the Rules Change Panel is required to include a person who is experienced in financial matters in Singapore. The obvious disadvantage of this model is that it has the potential to increase the size of the MAC.
- *Someone outside the market appoints Discretionary Class members.* Under this arrangement, the IMO would publish vacancies and request nominations from market participants. The applications would be assessed by an independent selection committee or individual according to published selection criteria.

New Zealand's Market Development Advisory Group (MDAG) is appointed in this way. The role of the MDAG is to provide advice to the Electricity Commission² about the development of the wholesale electricity market. The Electricity Commission selects MDAG members from nominations received from the industry on the basis of their skills and knowledge. The mandate for members is to provide independent advice, rather than to be representatives of their organizations or their participant class.

The Electricity Commission does not operate the market, but it is the rule-making body. The IMO performs both functions in the WEM and it could therefore be argued that it is no less independent than the Electricity Commission. Increasing the degree of independence in the WEM context would mean turning to a body such as the ERA or an industry ombudsman to appoint the MAC. The trade-off inherent in having the appointments made by someone 'distant' from the operation of the market is that they may not have an implicit understanding of the requirements for an effective MAC and that the appointment process might therefore be too 'mechanical'.

MHC considers appointment of a committee or group by someone removed from the daily operation of the market to be most appropriate for situations where:

- The perception of independence is paramount
- The matters under consideration are generic and their impact is universal
- The role of the committee or group is as part of a process in which representative views are obtained by other means – for example, if the group is developing high-level policy or directions that will be fully debated and

² The Commission is the rule-making body in the New Zealand electricity market.

consulted upon, or if the group is the decision-making authority acting on recommendations of a representative group.

Having an independent party to select members could also avoid the perception of appointments being made for reasons outside the formal criteria – for example, on the basis of loyalty or mutual benefit.

- *Hybrid model, where both market participants and the Market Operator are involved in the selection process.* Under this arrangement, the IMO would request nominations from market participants for MAC positions in each of a number of participant classes. Market participants would then create a 'shortlist' (say, the number of positions available plus one) of MAC representatives for each Discretionary Class, which would be presented to the MAC Evaluation Panel. Market participants would only be allowed to contribute to the development of shortlists for the classes to which they belong.

The MAC Evaluation Panel would then determine the final composition by matching the candidates' qualifications against identified skills requirements for the MAC as a whole: the intention being to avoid gaps in important skills, knowledge or experience. The requirements would be fully defined and the matching process would be transparent.

The rationale for adopting a hybrid model would be that:

- Allowing participants to identify their preferred representatives should provide the market with greater confidence that the MAC members will reflect the interests of the group that they have been chosen to represent.
- Having a single party conduct a skills assessment of the shortlists and final composition will ensure that there is an appropriate balance of skills.

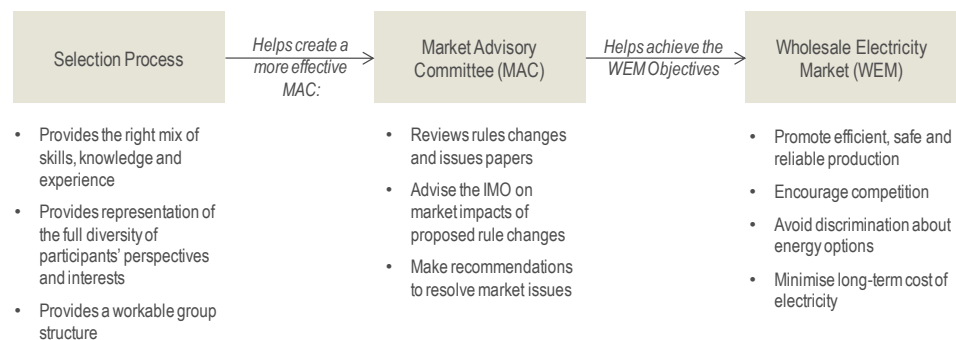
3 Assessment of Discretionary Class selection options

Assessment Framework

Ultimately, the selection process for MAC members must be assessed against the effectiveness of the MAC – which in turn plays a role in meeting the WEM's Objectives. The questions posed in assessing alternatives relative to the status quo are therefore:

- Would this alternative increase the effectiveness of the MAC, and in what way?
- Could that increased effectiveness positively influence the achievement of the WEM Objectives?
- Is the incremental benefit worth the incremental cost?

Diagram: Role of the MAC and MAC membership selection process in meeting WEM objectives



Comparison of Discretionary Class selection options

The following table provides a qualitative cost benefit analysis on each method for selecting Discretionary Class members for the MAC.

Table: Assessment of Discretionary Class selection options

		Status quo – IMO selects MAC Discretionary Class members	Participants elect MAC representatives	Independent party appoints MAC Discretionary Class members	Hybrid
Benefits (creates a more effective MAC)	Meets pre-qualification requirements'	Can be assured under any of the proposed models			
	Provides class-specific expertise – 'understands issues'	Potential deficits – participants understand 'their' issues best	Should provide appropriate class-specific expertise	Potential deficits – participants understand 'their' issues best	Should provide appropriate class-specific expertise
	Provides generic expertise – 'adds something valuable to the MAC'	Should provide an appropriate mix	Possible gaps / duplications in technical expertise	Should provide an appropriate mix	Should provide an appropriate mix
	Representation of participants' interests	Arguably compromised	Improved relative to status quo	Arguably compromised	Improved relative to status
Costs	Establishment costs	No additional costs	Changes to appointment guidelines	Changes to appointment guidelines	Changes to appointment guidelines
	Operation costs	No additional costs (current selection process costs only)	Ballot administration costs (but no selection process costs)	Possible service fees	Selection administration – probably same order of cost as present

The choice of an appropriate model for the MAC depends critically on the role the MAC is expected to fulfill in the WEM:

- The MAC is not a decision-making body. It provides advice and recommendations only where consensus is reached. That suggests that independence from market operations is not of critical concern in the composition of the MAC.
- The skills required to fulfill the mandate of the MAC – as set down in the MAC Appointment Guidelines – are common across the industry and could be delivered via common qualification criteria for all candidates. However, it appears that the IMO do apply, quite appropriately, a filter to ensure a broad representation of skills and experience (e.g.

engineering, finance and economics, etc) on the MAC. On the face of it, there appears to be value in maintaining some central management of appointments for that purpose.

In that context, the options can be characterized as follows:

- The status quo arguably deprives participants of the opportunity to select their own representatives and thereby improve the effectiveness of their representation.
- Under a market voting model, the nominee assessment process could focus on the nominee's ability to represent their group's interest. The overall composition of the MAC might end up being sub-optimal.
- Having an independent party appoint the MAC would remove any perception that the IMO had its own interests at heart in making appointments to the MAC, but aside from that appears to offer no benefit over the status quo.
- Having a hybrid model will provide greater comfort to the market that they are being represented appropriately, and that there are no gaps or duplications in technical skills that could impact the effectiveness of the MAC.

Recommendations

It is recommended that the hybrid model be adopted, whereby market participants create a shortlist of MAC representatives for Discretionary Classes, and the IMO would then appoint members from all of the shortlists based on an assessment of their technical skills and experience.

It is also recommended that the appointment criteria be updated to make explicit the skills, knowledge and experience required in the MAC as a whole. Doing so will both improve the transparency of the appointment process and allow market participants to put forward the best possible candidates for MAC membership.

Implications for rules, procedures and other documents

In order to implement the recommendations above, the following sections of the MAC Appointment Guidelines would need to be reviewed at a minimum:

- Section 4 (skills, knowledge and experience of members): This section may require additional detail around the criteria for assessing the Discretionary Class nominations and shortlists
- Section 7 (the nominations and appointment process): This section will need to reflect the changes in the Discretionary Class candidate assessment and selection process, including defining the roles of the market participants and the MAC Evaluation Panel.

Amendments could be made to Section 2.3 of the Market Rules to further specify the matters the IMO is to have regard to in making its appointment decisions and/or explicitly establishing that the nomination of Discretionary Class members is to be by ballot. However MHC does not believe it is strictly necessary to do so in order to establish the recommended model.

Appendix: Tabular comparison of selection models in other jurisdictions

Features	Market Advisory Committee (MAC)	Information Exchange Committee (IEC)	Retail Market Executive Committee (RMEC)	Market Development Advisory Group (MDAG)	Retail and Consumer Advisory Group (RCAG)	Rules Change Panel	Market Implementation Committee (MIC)	Modifications Committee
<i>Market served</i>	Wholesale Electricity Market (WEM, WA)	National Electricity Market (NEM)	NEM	New Zealand Electricity Market	New Zealand Electricity Market	Singapore Electricity Market	Pennsylvania, Jersey, Maryland (PJM) Power Pool	Irish Electricity Market
<i>Committee / Group purpose</i>	Provide advice to the IMO about procedure changes and electricity market operation matters	Responsible for recommending B2B strategies and procedures	Advise on strategies and procedures for non-B2B NEM retail market processes	Provide advice to the Commission on the development of the wholesale electricity market	Advise and assist the Electricity Commission with tasks relating to retail competition, consumer protection, and operation of the Electricity Governance Regulations and Rules.	The RCP makes recommendations about changes to the Market Rules to the EMC Board, which is then submitted to Energy Market Authority for endorsement.	Initiate and develop proposals to improve competitive wholesale electricity markets in the PJM region.	To progress code / rule change proposals with improve efficiency, development, financial security, participation, competition, transparency and equity in the electricity market.
<i>Committee scope has the potential to affect other market participants</i>	Yes, but seldom makes recommendations	Yes	No, but the recommendations are then considered by the same individuals	No	No	Yes	Yes	Yes
<i>Composition (how many, spread)</i>	All electricity market segments must be represented including compulsory members as well as discretionary members that represent multiple market participants in the same class.	3 members who represent Local Retailers/Market Customers, 3 members who represent distributors, 2 independent members	3 members who represent Local Retailers/Market Customers, 3 members who represent distributors, 2 independent members	8 members in total. No formal composition requirements, but the membership intends to be 'well balanced' The MDAG also has one senior Commission staff member.	10 members in total. No formal composition requirements, but the membership intends to be 'well balanced' The RCAG also has one senior Commission staff member.	Up to 15 members comprising electricity market participants, two EMC representatives, a person who is experienced in financial matters in Singapore, and two persons to represent the interests of the electricity consumers.	Two to five members from each of the following sectors: generation, retail, transmission, distribution, end-use consumer, other suppliers.	9 members. Composition requirements include at least 4/9 Members must be voting members, comprising generators and other suppliers. The remaining members must include a regulatory representative, system operator appointee, a market operator appointee; and at least two meter data provider representatives.

Features	Market Advisory Committee (MAC)	Information Exchange Committee (IEC)	Retail Market Executive Committee (RMEC)	Market Development Advisory Group (MDAG)	Retail and Consumer Advisory Group (RCAG)	Rules Change Panel	Market Implementation Committee (MIC)	Modifications Committee
<i>Any prerequisites for membership</i>	<p>Applicants for appointment to the MAC should collectively possess the skills, knowledge and experience.</p> <p>Discretionary members must be able to in a act in a way that properly reflects the interests of the group that they have been chosen to represent</p>	<p>Must demonstrate their eligibility against the criteria for membership and necessary skills, knowledge and experience. Industry members must be able to in act in a way that properly reflects the interests of the group that they have been chosen to represent. Independent Members must have the ability to remain impartial.</p>	<p>Must demonstrate their eligibility against the criteria for membership and necessary skills, knowledge and experience. Industry members must be able to in act in a way that properly reflects the interests of the group that they have been chosen to represent. Independent Members must have the ability to remain impartial.</p>	<p>Knowledge and experience of the relevant issues; and ability to contribute effectively to the advisory group's tasks.</p>	<p>Knowledge and experience of the relevant issues; and ability to contribute effectively to the advisory group's tasks.</p>	<p>Knowledge and experience of the relevant issues; be a director, officer, employee or agent of a market participant in the class of market participant which such member represents</p>	<p>No formal knowledge or skills prerequisites. Committee members must be market registered market participants. Members elected to represent a group of organisations must be able to reflect the interests of that group.</p>	<p>No formal knowledge or skills pre requisites noted.</p>
<i>Authority to select, or vote for, committee members</i>	IMO	Industry	Industry	Electricity Commission	Electricity Commission	EMC Board	Members committee (comprising industry participants)	
<i>Role of the 'market operator' during the election process</i>	Request nominations and select members (IMO)	Request and review nominations, run ballot process for situations where there are more nominations than vacancies (AEMO)	Request and review nominations, run ballot process for situations where there are more nominations than vacancies (AEMO)	The market operator is not involved in the election process	The market operator is not involved in the election process	Request nominations and select members (EMC)	The market operator is not involved in the election process	Request and review nominations, run ballot process.

Features	Market Advisory Committee (MAC)	Information Exchange Committee (IEC)	Retail Market Executive Committee (RMEC)	Market Development Advisory Group (MDAG)	Retail and Consumer Advisory Group (RCAG)	Rules Change Panel	Market Implementation Committee (MIC)	Modifications Committee
<i>Process for election</i>	Each year the IMO will review the performance and attendance of MAC members. On completion of the annual review the IMO will seek nominations from industry groups and Rule Participants. The IMO will consider nominations received, determine the appropriate composition of the MAC, and finalise appointment arrangements.	AEMO requests nominations to fill any vacancies from the relevant participants that are supposed to be represented. If the number of nominations is equal to or less than the number of vacancies, AEMO will determine those nominees to have been successfully elected to the IEC. For situations where the number of nominations is more than the number of vacancies for a category, a ballot will be used. Eligible voters are able to make one vote for the relevant representative category. IEC members are invited by AEMO to be appointed as members of the RMEC for the same term as their IEC term.		MDAG members are appointed by the Commission after considering nominations from participants.	RCAG members are appointed by the Commission after considering nominations from participants.	Market participants and market support services licensees provide the EMC Board with one or more list or lists of nominees for appointment to the rules change panel. The EMC Board will consider nominations received, and then determine the appropriate composition of the EMC.	Each PJM Participant appoints a representative who serves on the Members Committee and has the authority to act for the PJM Member. A group of PJM Members that are Affiliates may agree to be represented by a group representative. The Members Committee is responsible for establishing technical committees, and selecting appropriate members for technical committees like the MIC.	The Secretariat sends a notice inviting nominations. Once nominations have been received, a ballot paper with candidate descriptions is circulated to all participants. In the event of a tie, another round of voting may occur. In the event of inconclusive election results, the Secretariat will consult regulatory authorities for final determination.
<i>Notes on variation to the status quo (MAC)</i>	Not applicable	Members are elected by the market participants in the class that they are being nominated to represent.	Members are elected by the market participants in the class that they are being nominated to represent.	Less formal election procedures and composition requirements. The mandate for members is to provide independent advice, rather than to be representatives of their organisations or their participant class.	Has additional independent members with specialist (commercial and financial) skills.	Has a separate committee comprising market participants to appoint MIC members.	Members are elected by market participants.	

Features	Market Advisory Committee (MAC)	Information Exchange Committee (IEC)	Retail Market Executive Committee (RMEC)	Market Development Advisory Group (MDAG)	Retail and Consumer Advisory Group (RCAG)	Rules Change Panel	Market Implementation Committee (MIC)	Modifications Committee
<i>Likely rationale for election process</i>	Having one party responsible for appointing members for other committees may provide efficiencies in coordination and planning.	The IEC / RMEC has responsibility for recommending matters that could have commercial / regulatory impacts. Having parties vote for their representatives ensures that the appointed parties reflect (at least the majority of) their group's interests.		The matters under consideration are generic and their impact is universal. Also, any proposed rule changes undergoes wider industry consultation. Having an independent party select members avoids the perception of appointments being made for reasons outside the formal criteria – for example, on the basis of loyalty or mutual benefit.		Having one party responsible for appointing members for other committees may provide efficiencies in coordination and planning.	Having an industry based selection panel ensures that members reflect the interests of the group that they are selected to represent. Having a central Member Committee to establish and appoint members for other committees may provide efficiencies in coordination and planning - PJM serves a large numbers of participants and has several technical committees	Having market participants vote for their representatives ensures that the appointed parties reflect their interests.



Agenda Item 8b: Supplementary Reserve Capacity Update

1. BACKGROUND

The Supplementary Reserve Capacity (SRC) Working Group was convened under the auspices of the Market Advisory Committee (MAC) to consider the following issues with the SRC provisions of the Market Rules:

- Appropriate funding for the additional costs associated with the use of the SRC mechanism and distribution of these costs amongst Market Participants;
- Appropriateness of the causation built into the mechanism (including the issue of the SRC funding in the event of Capacity Credit cancellation);
- Definition of Eligible Services;
- Appropriate cost structure for an SRC tender and how this relates to refunds;
- Timelines of the initial call for SRC; and
- Implications if forecasted load growth is higher than anticipated.

As an outcome of the deliberations of this Working Group the following Rule Change Proposals were developed:

- Funding of Supplementary Reserve Capacity (RC_2008_27) – an interim solution to the issue of appropriate funding for the additional costs associated with the use of the SRC mechanism and distribution of these costs amongst Market Participants;
- Eligible Services for Supplementary Reserve Capacity (RC_2008_28); and
- Funding of SRC in the event of Capacity Credit cancellation (RC_2008_34).

Following public consultation both RC_2008_27 and RC_2008_28 were approved by the IMO. However, during the public consultation process for RC_2008_34 there was significant debate over the “causer pays” versus “user pays” principles. In particular how to determine who actually is the causer of the SRC if the “causer pays” proposal is adopted. As a consequence of this significant debate around the principle to be adopted the IMO decided to reject the Rule Change Proposal. Further detail surrounding the IMO’s decision is available in the Final Rule Change Report available on the IMO’s webpage: http://www.imowa.com.au/RC_2008_34

Following the IMO’s decision to reject RC_2008_34, Alinta noted at the 14 July 2009 MAC meeting that the market currently has a situation where if a Facility decides to reduce its Capacity Credits then customers are left exposed with no ability to manage the risk. In particular, Alinta noted that this is not a desirable scenario and that the funding of Supplementary Capacity Contracts still needs to be resolved.

A meeting was held between the IMO, Alinta and Perth Energy to discuss the funding of SRC following the IMO's rejection of RC_2008_34. An update of this meeting was provided to the MAC at the 9 September 2009 meeting. As an outcome of this meeting all parties involved agreed that the funding of SRC provisions would not need to be revisited immediately as this was not high priority for the time being. The MAC agreed with this assessment and with the IMO's commitment to revisit the issue again in six months time.

At the 10 March 2010 MAC meeting the IMO provided an update of its further assessment of whether the issue of funding SRC needed to be reconsidered. At that time, the IMO considered that given the current market position, as indicated by the healthy capacity cushion (the difference between Available Capacity and the Maximum Load), the issue of funding of SRC did not require revisiting. The IMO did however commit to maintaining the issue on its issues register and re-evaluating the situation again in six months time.

2. FURTHER EVALUATION OF THE ISSUE

Consistent with this commitment, the IMO has undertaken a further assessment of whether the issue of the funding of SRC needs to be reconsidered at this point in time. In particular, the IMO has assessed the potential requirement for calling SRC in the 2010/11 Capacity Year and determined that it is currently low, as indicated by the healthy difference between the updated capacity requirements determined in the 2009 Statement of Opportunities (SOO) and the level of Capacity Credits procured by the IMO.

	2010/11
Capacity Credits procured	5258.55
Original Reserve Capacity Requirement	5146
Updated Reserve Capacity Requirement (2009 SOO)	4836
Capacity Cushion (2009 SOO)	422

Based on the current market position with regard to the level of available capacity, the IMO does not consider that the wider issue of the funding of SRC (i.e. causer pays versus user pays) requires revisiting at this point in time. However, it has previously been suggested that Capacity Cost Refunds could be held in a consolidated fund to pay for SRC in the first instance and then distributed at the end of each year if not required. The IMO considers that this could be addressed as part of the Rules Development Implementation Working Group's review of the Capacity Cost Refund mechanism.

3. RECOMMENDATIONS

The IMO recommends that the MAC:

- **Agree** that the wider issue of the funding of SRC does not require revisiting at this point in time; and
- **Discuss** whether Capacity Cost Refunds could be held in a consolidated fund to pay for SRC in the first instance and if so, whether this should be addressed as part of the Rules Development Implementation Working Group's review of the Capacity Cost Refund mechanism.

Agenda item 9 - MAC meeting dates 2011

The proposed dates for MAC meetings in 2011 are contained in the table below.

The meeting time, subject to change on some occasions, is 2.00 – 5.00 pm.

Table 1: Proposed MAC meeting schedule 2011

Month	Meeting #	Date
January	n/a	No meeting.
February	35	9 February 2011
March	36	9 March 2011
April	37	13 April 2011
May	38	11 May 2011
June	39	8 June 2011
July	40	13 July 2011
August	41	10 August 2011
September	42	14 September 2011
October	43	5 October 2011 ¹
November	44	9 November 2011
December	45	14 December 2011

¹ Please note: this meeting differs from the normal second Wednesday of the month schedule.