

Market Rules Evolution Plan: 2013-2016

1. BACKGROUND

The purpose of this paper is to provide an issues list for consideration and prioritisation by the Market Advisory Committee (MAC), to form the basis of the Market Rules Evolution Plan for the Wholesale Electricity Market Rules (Market Rules) for the 2013-2016 Review Period. Since market start the IMO and Rule Participants have been focused on refining the Market Rules, and have periodically identified areas which require review and further development. These issues are then prioritised based on advice provided by the MAC in the Market Rules Evolution Plan and incorporated into the IMO work program.

The most recent Market Rules Evolution Plan was published in June 2009 for the period 2009 to 2013, and the Market Evolution Program (MEP) was subsequently initiated to address the following prioritised issues.

- Pricing and provision of Balancing
- Provision of Load Following Services
- Operation of reserve capacity refunds, and
- Operation of the STEM.

With the implementation of new Competitive Balancing and Load Following Markets the IMO considered it was timely to review the previous Market Rules Evolution Plan and assess which issues have been resolved and which remain, and to identify any new issues.

The IMO initiated this process by undertaking a series of initial meetings with industry stakeholders to consult on the issues which are considered important and warrant inclusion on the Market Rules Evolution Plan for the coming Review Period. This year the IMO invited representatives of both the Public Utilities Office (PUO) and System Management to attend the initial discussions with stakeholders.

There was a consistent theme among stakeholders at these initial discussions that a significant amount of change had either been recently implemented or was in the process of being implemented (i.e. RCM review) in the market, and that a period of consolidation may be appropriate to allow these changes to bed in.

In general, the majority of new issues which have been identified or issues which remain on the list for prioritisation are more operational and at a lower level of complexity than many of those which were in the previous Market Rules Evolution Plan.

2. OVERVIEW OF PROGRESS TO DATE

The IMO has reviewed the Market Rules Evolution Plan (2009-2013) and an update on the status of each issue is provided below:

Issue	Status
Improved Balancing Mechanism	Completed and new suggestions recorded
Introducing Markets in Ancillary Services	Completed for Load Following
Review of Reserve Capacity Mechanism (RCM)	RCM Review completed, implementation of recommendations in progress
Closer alignment of gas and electricity nominations	Considered and rejected
Intermittent Loads	Outstanding
Market Rule Change Process	Outstanding
Energy Price Limits	Outstanding
Improvements to STEM	Completed
Review of fuel availability / requirements	In Progress
Treatment of new small generators	Outstanding
Calculation of loss factors	Outstanding
Settlement simplification	Outstanding
Forced Outage conversion	In Progress
Ability to use Resource Plan as a portfolio	Completed

3. ITEMS IN PROGRESS

The key issues which are currently in the process of being either considered or implemented in the 2012/13 financial year and will therefore not feature in the 2013-2016 Market Rules Evolution Plan include:

- The implementation of the recommendations from the Five Year Outage Planning Review which was completed by PA Consulting in 2011. One Rule Change Proposal to improve the transparency of information around outages has already been submitted into the formal process, and the Phase 2 of the Outage Planning Process improvements is currently under development
- The implementation of the recommendations from the Reserve Capacity Mechanism Review which was completed by the Lantau Group in 2011. Issues which are currently being addressed by the RCM Working Group include:
 - The current oversupply of capacity in the WEM
 - Harmonisation of demand and supply side sources of peaking capacity
 - Implementation of a dynamic refund mechanism
 - Refinement of fuel supply requirements
 - Refinement of the method for calculating Individual Reserve Capacity Requirements
 - The impact of forecasting inaccuracy on the Reserve Capacity Requirement
- A Five Year Review of the Reliability Criterion
- A Five Year Review of the IMO's demanding forecasting processes
- A review of the Energy Price Limits Review frequency
- The development and progression of the Rule Change Proposal: Ancillary Services Payment Equations (PRC_2010_27) which proposes that the "causer pays" principle should be applied

and any incremental Load Following costs attributed to intermittent generation should be recovered from Intermittent Generators.

4. MARKET RULES EVOLUTION PLAN (2013-2016) ISSUES LIST

The outstanding matters plus several new suggestions for enhancement that have been recorded in the Market Development Rule Suggestion Log for consideration are summarised below:

Issue	Explanation	Source
Intermittent Loads	A number of issues have been identified with respect to the provisions of the Market Rules related to Intermittent Load refunds. This was identified in the original Market Rules Evolution Plan. This noted that the Market Rules relating to the Intermittent Load maximum nominated Reserve Capacity Requirements be reviewed to ensure that the Market Rules cannot be misconstrued as allowing participants to completely avoid IRCR charges for Intermittent Loads by setting the requirements to either 0 or a number lower than the actual requirement of the loads in the event of a generator failure.	MREP 2009-2013
Market Rule Change Process	Under the current Market Rules, a standard rule change process takes a considerable time to complete. A number of Market Participants have commented on this process in various forums over the years. While it is appropriate that the rule change process proceeds in an efficient and timely manner, it should also provide sufficient time for consultation and analysis. Further, some rule changes would be more complex while others would be simpler and a single timeline may not always deliver efficient outcomes. The IMO considers that the efficiency of the Market Rule Change processes should be examined with the objective to streamline the existing prescribed timelines. Any changes to the processes and timelines should provide sufficient flexibility to allow the IMO Board to consider proposed Rule Changes in Session.	MREP 2009-2013
Treatment of new small generators	Section 4.28B of the Market Rules outlines the Reserve capacity rules for the treatment of new small generators. The section is applicable to Registered Facilities to which the following conditions apply: <ul style="list-style-type: none"> the Facility is a Non-Scheduled Generator and has commenced operation; and the Facility has a nameplate capacity not exceeding 1 MW. It has been suggested that the threshold for this section be increased from the 1MW nameplate capacity.	MREP 2009-2013
Calculation of loss factors	By June each year each Network Operator must calculate and provide to the IMO Loss Factors for each connection point in their Network. It has been noted that this is an often time consuming and expensive process to undertake. It has been suggested that this process could be streamlined to make it more efficient while not losing the integrity of the process.	MREP 2009-2013
Settlement simplification	A number of participants have commented that the complexity in the Market Rules around market settlements may benefit from simplification.	MREP 2009-2013
Reviews	The IMO undertakes a number of reviews (e.g. Energy Price Limits, Margin Values) which require input assumptions for modelling, e.g. fuel costs, heat rates, O&M costs, etc. Currently the IMO is unable to request confidential operational data from Market Participants for use in these reviews. The Market Rules could be enhanced so that the powers of the IMO to request actual operational data from Market Participants are extended to allow	IMO & ERA

	the request of relevant data (on a confidential basis), to provide more accurate inputs to the modelling processes.	
Introducing Market in Spinning Reserve	Suggestions have been expressed at MAC that the introduction of a Spinning Reserve Market will increase competition in the WEM.	Multiple Stakeholders
Transition to half hour gate closure	It has been suggested that a half hour gate closure would lead to more efficient market outcomes.	ERM Power
Participation of DSM in Balancing	The RCMWG has explored the concept of DSM participation in Balancing and it has been proposed to include this on the next MREP for consideration.	RCMWG
Market Fees	Concerns have been expressed by MAC members around the exemption of Demand Side Aggregators from Market Fees. The IMO notes that there may be benefit in a wider review around Market Fees including allocation of fees to non-energy producing capacity facilities (e.g. peaking capacity) .	Multiple Stakeholders
LoadWatch Data Publication	The IMO considers an obligation should be included in the Market Rules for System Management to deliver LoadWatch data to the IMO each Monday prior to noon. The required data would include forecast min and max temperature, and forecast system load, for weekdays. The obligation on the IMO would be to publish the LoadWatch report each Monday.	IMO & ERA
Emissions Intensity Index (EII)	Amendments to the Market Rules have been proposed to formalise the provision of emissions data by Market Participants to the IMO and the publication by the IMO of an Emissions Intensity Index for the WEM.	IMO
Additional Improvements to the Balancing Mechanism	<ul style="list-style-type: none"> • Remove requirement to submit resource plans; • Investigate removal of STEM submissions requirement, or allow multiple STEM windows catering for multiple STEM transactions within the trading day, aligned to the balancing windows; • Investigate closer to real time bilateral nominations/updates/adjustments; • Link between balancing submissions and Facility limit so that a Balancing Submission may contain more capacity than the Facility limit but not less; and • Timing of submissions: consider starting at 9am or 10am instead of 8am. 	Multiple Stakeholders
Review of Spinning Reserve calculation and cost application	The design of the Balancing market, with intra-interval dispatch instructions, in combination with the current Spinning Reserve cost regime (a fixed charge per block) appears at odds with creating an efficient market. Suggestion to review the Spinning Reserve regime with a view to making it more granular to combat regular per-interval fixed costs.	Griffin
Remove some of the uncertainty around Non Temperature Dependent Loads (NTDLs)	Given NTDLs have a much lower capacity ratio than Temperature Dependant Loads (TDLs), if a new NTDL is created in the Capacity Year this changes the TDL ratio for all customers. This ratio variation could be minimised by confirming NTDL status for a Capacity Year in Year 1 of the Reserve Capacity Cycle. A simplification would be to disallow changes from TDL to NTDL within a Capacity Year, allowing these changes only in a future Capacity Year.	Synergy
New Loads	The non-arrival of new loads (allowed for in the Statement of Opportunities) places a capacity cost onto existing loads as the capacity credited for the new load which did not arrive is paid for by the existing loads. Capacity could be linked to proposed large loads, requiring a security deposit from large loads, or requiring large loads to act as a DSP, with no rights to reliable supply; where, if the opposite occurs and a large load arrives	Synergy

	unexpectedly and this results in an SRC auction, then that load should bear the SRC cost as targeted capacity.	
Feedback on Synergy's actual demand	Earlier feedback on Synergy's actual demand rather than wait for the non-STEM publication. This may morph into changing the settlement timeframe such that settlement occurs more frequently. Such a change has the benefit of reducing the level of participants' prudential requirements.	Synergy
Capacity Lead time for Demand Side Programmes	It has been noted that the two year lead time for certification could be a significant impediment for generation with shorter lead times, especially smaller generation and Demand Side Management (DSM). Shorter lead times for capacity certification would facilitate smaller generation and DSM more readily. In respect of DSM, a shorter lead time may mean that DSM could be made available spontaneously.	Premier Power

5. STATE POLICY ISSUES

A number of issues were raised during the initial meetings and during the August 2012 MAC meeting that relate to State Energy Policy that would require consideration by the PUO. In the interests of ensuring these issues are captured they are summarised below:

Issue	Explanation	Source
Removal of Verve Energy as a portfolio bidder	A policy direction from the PUO to remove the ability for Verve Energy to bid in as a portfolio to improve the efficiency of the WEM.	ERA
Dual Fuel	The likely future direction of the Dual Fuel initiative currently under consideration at the PUO.	Minister's Office
Constrained/ Unconstrained Grid direction	The PUO should consider policy in relation to whether a future move toward a constrained grid is likely.	APA
Verve Energy/Synergy merger	Clarification on whether or not the Verve Energy / Synergy merger is likely to occur.	Perth Energy
Central Planning Role	The IMO to provide an independent, objective strategic planning role to the SWIS.	Griffin
Market Governance	The PUO to consider whether existing market governance is appropriate	Synergy

6. CRITERIA FOR RANKING THE ISSUES

The following seven criteria should be applied by MAC members when assigning relative priorities to each of the identified issues outlined in section 4 of this report (notwithstanding that any change to the Market Rules must be consistent with the Wholesale Market Objectives). The criteria focus on the principles of market evolution and describe the qualities of a good design, or of a proposed change to the Market Rules. The IMO considers that each of these criteria should be given an equal weighting by MAC members when ranking issues on the list. Note that the same criterion was applied by MAC members during the ranking process undertaken to assist the IMO in establishing the Market Rules Evolution Plan 2009 -2012.

- **Efficient** – Would a proposed market rule or new market evolution feature increase economic efficiency? The term “economic efficiency” is used broadly to mean both static efficiency (are resources allocated such that they achieve maximum output at a point in time?) and dynamic efficiency (are resources allocated such that they achieve system growth at least cost over time?). The application of the efficiency criterion can often be challenging, especially in the context of structural decisions. In layman's terms, however, the sense of the criterion is clear,

economic efficiency increases when there is an increase in benefits to society and to Market Participants, relative to the costs.

- Fair: Would a proposed market rule or new market evolution feature enhance the overall fairness of the market? Fairness involves the equal treatment of all Market Participants, regardless of their size, sector, ownership, and in particular, means equality of access to the market and the IMO's services.
- Reliable and safe: Changes must not negatively impact the reliability or safety of the market.
- Transparent: Changes must be public and easy to understand.
- Robust: Changes must be such that they add to the stability and coherence of the basic market design. A minor change might, on its own, add to efficiency or fairness, and seem to be practical, but nevertheless be based on "foreign" philosophic principles or assumptions. The concern is that such a change could lead to difficulties at a later date, as the extent of the inconsistency becomes more apparent.
- Enforceable: Changes must be enforceable.
- Practical: The message reinforced by this criterion is that the market should develop based on the needs of real world participants buying and selling electricity and related procedures and services, as opposed to some theoretical blue-print of what markets ought to look like. Clearly, there is a balance to be achieved between "practicality" and "robustness", as defined above.

7. NEXT STEPS

Following discussion of the list of issues at the August 2012 MAC meeting¹, the IMO is now requesting MAC members to assign a relative priority to each of the issues noted in section 4 of this report. The priorities assigned to each issue should be consistent with the criteria outlined in section 5 of this report (notwithstanding the requirement for the any change to be consistent with the Wholesale Market Objectives). Please note that issues that were raised relating to State Energy Policy (outlined in section 5 of this report) require consideration by the PUO prior to incorporation into the Market Rules Evolution Plan and so have been excluded from the voting process.

The prioritisation advice will assist the IMO to set the work priorities for the next phase of market development, and will assist the IMO and System Management in developing their Allowable Revenue submissions for the three year Review Period commencing in 2013/14. The IMO will present the MAC with the results of the ballot at its September 2012 meeting.

The IMO notes that it will continue to consult with the PUO on the policy related matters outlined in section 6 of this report and will update the Market Rules Evolution Plan on an ongoing basis to reflect any advice received from the PUO on these matters.

¹Following the August MAC meeting, MAC members were requested to provide details of any further issues they would like included on the list. The IMO did not receive details of any additional issues for incorporation prior to the prioritisation process.