
Agenda Item 6b: Market Rules Evolution Plan- Work Programme (Oct 2009 – Sep 2012)

1. PURPOSE and INTRODUCTION

The purpose of this paper is to present the MAC with a Market Rules Evolution Plan (MREP) Work Programme for the coming three years. The results of the Market Advisory Committee (MAC) ballot are a key input into setting the Work Programme.

This Work Programme will be used by the IMO in settings its work priorities for the coming three years and is in addition to the regular Market Rule and Market Procedure change process and any reviews required by the Market Rules (i.e. annual Energy Price Limits Review and 5-yearly Outage Planning Process review).

The IMO notes that the priorities and timelines presented in this paper may change during the three-year period in the circumstances where new high-priority issues are identified and resources have to be diverted to address these issues. Additionally, the IMO notes that the resourcing and work programming has been undertaken separately to the Oates Review, and that this Work Programme may change as a result of the Oates Review Implementation Plan.

2. BACKGROUND

The MREP Issues paper, presented at the 10 June 2009 MAC meeting, identified the areas of the Market Rules that require further work, as raised by various stakeholders during the consultation process.

The IMO then invited MAC members to indicate the relative priority of each of the issues on the list with the intention that the prioritisation exercise would assist the IMO to set the work priorities for the next phase of Market Rules development.

To ensure that the Work Programme continues to reflect the most relevant issues and the views of stakeholders over time, the IMO intends to periodically conduct a prioritisation exercise. The prioritisation exercise will involve:

- updating stakeholders with the progress on the development of current issues in the Work Programme;
- inviting stakeholders to identify any additional issues they would like the IMO to address; and
- discussing the resulting list of issues with the MAC and asking the MAC to rank the importance and urgency of each issue. This will then guide the IMO in updating the MREP.

3. RESULTS FROM MAC BALLOT

Ballot forms were submitted from Alinta, Griffin Energy, Perth Energy, Synergy, System Management, Verve Energy, Landfill Gas & Power, the Office of Energy, and

the IMO. Table 1 presents the priority ranking of the 13 identified issues based on a simple ranking methodology in order of priority (from the highest to lowest). This information, presented by stakeholder is attached in appendix 1.

Issues	Total	Rank
Improved Balancing Mechanism	18	1
Review of Reserve Capacity Mechanism	31	2
STEM	48	3
Closer alignment of gas and electricity nominations	57	4
Introducing Markets in Ancillary Services	62	5
Settlement simplification	63	6
Energy Price Limits	67	7
Market Rule Change Process	70	8
Ability to use a Resource Plan as a portfolio	73	9
Treatment of new small generators	76	10
Forced outage conversion	77	11
Intermittent Loads	84	12
Calculation of loss factors	93	13

4. ISSUES TO BE ADDRESSED

The Work Programme uses the results of the MAC ballot as a key input into setting the work priorities for the next three years. This Work Programme focuses on the top five issues. The IMO notes that it had previously suggested that there was limited value in looking past the top three or four ranked areas due to resource constraints. However the IMO considers that the review of the balancing mechanism, STEM, alignment of gas and electricity nominations and Ancillary Services markets are interrelated in some aspects and it therefore is intuitive to expand the Work Programme to include the top five issues. The IMO also considers that these four issues will be largely addressed together, while the Review of the Reserve Capacity Mechanism will be a standalone review.

The five issues are broadly outlined below. Please note this is not a detailed scope of the issues, it is merely a brief outline of each issue.

Issue 1: Improve the Balancing Mechanism

Review the current Balancing mechanism with a view to:

- Allowing IPPs to contribute towards balancing where this makes sense economically; and
- Improving the mechanism to handle unexpected events between the clearing of the STEM and real time, as this appears to create a number of issues, which impact on both Verve Energy and other market participants.

Issue 2: Review of the Reserve Capacity Mechanism

Review the following aspects of the Reserve Capacity Mechanism:

- Expressions of Interest process;

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- MRCP and WACC process;
 - IRCR calculations;
 - Secondary Market for Capacity Credits/Obligations;
 - Efficiency of the Reserve Capacity Mechanism, including whether an auction based mechanism is more appropriate;
 - Shorten the lead time for entry into mechanism; and
 - Capacity Cost Refund mechanism.

This list is not an exhaustive list and the IMO is of the opinion that some of the “low hanging fruit” within this list, i.e. MRCP and WACC process improvements, can be addressed earlier in the three year period.

Issue 3: Improvements to STEM

Review the STEM and identify areas for improvement that assist in increasing trade volume, price relevance and STEM predictability. This could include, but is not limited to:

- Moving closer to real time or multiple gate closures;
- Transparency of STEM offers; and
- Preliminary calculation of Marginal Cost Administered Price (MCAP) (closer to real time).

Issue 4: Closer alignment of gas and electricity nominations

Review the original Market Design premise that Market Participants wanted to be aware of their electricity positions prior to making their gas nominations and assess whether a closer alignment of these windows or swap of nomination times should occur.

Issue 5: Introducing Markets in Ancillary Services

Review the procurement of Ancillary Services process and assess whether the provision of ancillary services should be opened up to competition for spinning reserve, frequency control and black start.

5. PROPOSED WORK PROGRAMME

Attached is a proposed high level Work Programme for the top five MREP issues. These are the main tasks that will need to be undertaken with respect to each review. It is intended that the Work Programme will be refined throughout the process as more scoping work and issue identification is undertaken.

6. RECOMMENDATIONS

It is recommended that the MAC:

- **Review and discuss** the proposed Work Programme; and
- **Propose** any refinements to the IMO’s high level Work Programme.

APPENDIX 1: MREP BALLOT BY MAC MEMBER

#	Issues	OoE	Perth Energy	Griffin	IMO	ERA	Alinta	SM	WP	Synergy	Verve	Water Corp.	LGP	Total	Rank
1	Improved Balancing Mechanism	2	3	2	1		2	1		1	3		3	18	1
3	Review of Reserve Capacity Mechanism	7	1	1	4		7	5		2	2		2	31	2
8	STEM	3	2	10	7		3	6		8	4		5	48	3
4	Closer alignment of gas and electricity nominations	1	6	8	6		11	4		6	9		6	57	4
2	Introducing Markets in Ancillary Services	5	8	5	2		10	3		12	6		11	62	5
11	Settlement simplification	6	12	9	3		6	7		3	8		9	63	6
7	Energy Price Limits	12	4	3	9		5	11		5	5		13	67	7
6	Market Rule Change Process	13	9	6	5		9	2		7	7		12	70	8
13	Ability to use a Resource Plan as a portfolio	8	10	4	12		1	12		9	13		4	73	9
9	Treatment of new small generators	10	5	12	11		12	9		4	12		1	76	10
12	Forced outage conversion	9	13	7	13		4	13		10	1		7	77	11
5	Intermittent Loads	4	7	11	8		13	10		13	10		8	84	12
10	Calculation of loss factors	11	11	13	10		8	8		11	11		10	93	13

Market Rules Evolution Plan (Oct 2009 - Sept 2012): Work Programme Calendar

		Oct - Dec 09	Jan - Mar 10	Apr - Jun 10	Jul - Sep 10	Oct - Dec 10	Jan - Mar 11	Apr - Jun 11	Jul - Sep 11	Oct - Dec 11	Jan - Mar 12	Apr - Jun 12	Jul - Sep 12
0	MREP Work Programme Development and updates												
i	Finalise Work Programme												
ii	Stakeholder update on progress against plan												
iii	Review and re-publish MREP												
1	Improved Balancing Mechanism												
i	Scope												
ii	Design/development work												
iii	Rule Changes												
iv	System Specifications												
v	Implementation												
2	Review of Reserve Capacity Mechanism												
i	Scope												
ii	Design/development work												
iii	Rule Changes												
iv	Implementation												
3	Improvements to STEM												
i	Scope												
ii	Design/development work												
iii	Rule Changes												
iv	System Specifications												
v	Implementation												
4	Closer alignment of gas and electricity nominations												
i	Scope												
ii	Design/development work												
iii	Rule Changes												
iv	System Specifications												
v	Implementation												
5	Introducing Markets in Ancillary Services												
i	Scope												
ii	Design/development work												
iii	Rule Changes												
iv	System Specifications												
v	Implementation												