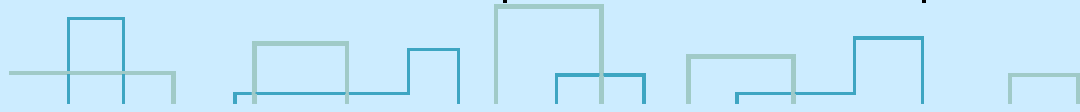


Independent Market Operator



Draft Market Rule Change Report

Title: Requirements for Registration as a Market Participant

Ref: RC_2007_04

Date: 20 July 2007

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1. INTRODUCTION

1.1. *General Information about Rule Changes*

Clause 2.5.1 of the Wholesale Electricity Market Rules provides that any person (including the Independent Market Operator) may make a rule change proposal by completing a Rule Change Proposal Form and submitting this to the Independent Market Operator (IMO).

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 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
- (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 process or a Fast Track process. The Standard process involves a combined 10 weeks public submission period. Under the shorter Fast Track process the IMO consults with Rule Participants who either advise the IMO that they wish to be consulted or the IMO considers have an interest in the change.

1.2. *About this Rule Change*

On 3 May 2007, Synergy submitted a Rule Change Proposal titled Requirements for Registration as a Market Participant.

The proposal is being processed by the IMO using the Standard Rule Change Process, described in section 2.7 of the Wholesale Electricity Market Rules.

The Standard Process adheres to the following timelines, outlined in section 2.7 of the Market Rules:

- The first Public Submission period is 6 weeks from the date the IMO publishes a Rule Change Notice for the proposal.
- The IMO publishes this draft Rule Change report within 20 Business Days of the end of the first Public Submission period.
- The second Public Submission period is a minimum of 20 Business Days

from the date the draft Rule Change Report is published.

- Within 20 Business Days after the end of the second Public Submission period, the IMO must publish a Final Rule Change report.
- Within 20 Business Days after the Final Rule Change is submitted to him, the Minister must consider whether the proposed Amending Rules are consistent with the Market Objectives.

The key dates in processing this Rule Change Proposal are:

- The Rule Change Notice for this proposal was published on the IMO website on 11 May 2007
- The first Public Submission period on the Rule Change Proposal ended on 22 June 2007
- This draft Rule Change Report is published on 20 July 2007
- The second Public Submission period is from 20 July to 17 August 2007
- The Final Rule Change Report will be published by the IMO on 14 September 2007
- The Minister decision on the Final Rule Change Report and the Market Rule Change Proposal will be published on 12 October 2007.

Based on the submissions received, the IMO's draft decision is to accept the Rule Change in the modified form described in chapter 6 of this report.

This draft Rule Change Report on the Rule Change Proposal has been prepared by the IMO in accordance with clause 2.7.6 of the Market Rules.

Interested parties are invited to provide further submissions in relation to this draft Rule Change Proposal Report. In accordance with the Market Rules timelines, the deadline for submissions is 17 August 2007.

2. THE RULE CHANGE PROPOSAL

2.1. *The Submission*

IMO received, on 3 May 2007, a Rule Change Proposal from Synergy regarding a change to clause 2.28.6 and the inclusion of a new clause 2.28.8A in the Wholesale Electricity Market Rules.

2.1.1. *Submission details*

Name: Jenni Conroy
Phone: (08) 9326 4661
Email: Jenni.conroy@synergyenergy.com.au
Organisation: Synergy
Date submitted: 03/05/2007
Urgency: 2-medium
Change Proposal title: Requirements for Registration as a Market Participant

2.2. *Details of the Proposal*

Under the current rules, generators who have installed capacities greater than 10MW are required to register as Market Generators. In some cases these generators only export a limited amount of energy to the system and do not hold Capacity Credits for any of their capacity.

Synergy submitted that, the requirement to register as a Market Generator for those generators may be onerous, bringing with it a degree of risk. It is proposed to allow generators which, while having higher installed capacity, export less than 10MW into the system at all times to be exempt from the requirements to register.

Several small generators have been granted temporary exemption to register as a Market Participant, pursuant to clause 2.28.26 and 2.29.9 of the Market Rules. This rule change process is expected to be completed prior to the expiry of these current exemptions.

2.3. *The Proposal and the Market Objectives*

Synergy considers that these suggested changes effectively addresses objectives b) and c) of the Wholesale Market Objectives:

..”to encourage competition among generators and retailers in the South West interconnected system, including by facilitating efficient entry of new competitors; (and)...(to)...avoid discrimination in that market against particular energy options and technologies..”

Synergy submitted that the Market Rules, as they are currently written, “place onerous requirements on small generators vis-à-vis the requirement to be a registered Market Generator”. Where such generators only make limited exports to the system, the costs and risks associated with being a registered Market Generator effectively prohibit their participation in the Wholesale Electricity Market. In Synergy’s view promulgation of this rule change proposal will provide that the market

design does not discriminate against these participants.

Synergy submitted that its proposal therefore enhances the ability of the market to deliver against its objectives by:

- Avoiding discrimination in the market against a particular energy option or technology; and
- Increasing market efficiency.

2.4. Amending Rules Proposed by Synergy

The following rule changes were proposed by Synergy:

Amendment to clause 2.28.6 as follows (changes are underlined):

2.28.6. Subject to clauses 2.28.8A and 2.28.16, a person who owns, controls or operates a generation system which has a rated capacity that equals or exceeds 10 MW and is electrically connected to a transmission system or distribution system which forms part of the South West Interconnected System, or is electrically connected to that system, must register as a Rule Participant in the Market Generator class.

Insertion of a new clause, between the existing clauses 2.28.8 and 2.28.9.

2.28.8A. Without limiting the generality and the operation of clause 2.28.16, a person who owns, controls or operates a generation system which has a rated capacity that equals or exceeds 10 MW and is electrically connected to a transmission system or distribution system which forms part of the South West Interconnected System, or is electrically connected to that system, may, but is not required to, register as a Rule Participant in the Market Generator class where all of the following are satisfied:

- positive MWh quantities measured by the interval meter associated with that generation system are not expected to exceed 5 MWh in a Trading Interval;
- negative MWh quantities measured by the interval meter associated with that generation system are not expected to increase by more than 5 MWh in a Trading Interval in the event of an outage of that generating system; and
- System Management informs the IMO that it has determined that it does not require information about the relevant generation system to maintain Power System Security and Power System Reliability; and
- The meter measuring the generation system remains registered by an existing Market Customer.

2.5. *The IMO's Initial Assessment of the Proposal*

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

The proposal is being progressed by the IMO according to the Standard Rule Change Process, described in section 2.7 of the Market Rules.

3. SUBMISSIONS

IMO received submissions from Alinta Sales, Chamber of Commerce and Industry WA (CCI) and Verve Energy regarding this Rule Change Proposal. A summary of the submissions is provided below. IMO's response to the issues raised by the submissions can be found in chapter 4 of this document. The submissions, in their entirety, can be found on the IMO Website.

3.1. Market Advisory Committee

The Market Advisory Committee (MAC) was invited to have preliminary discussions on the Rule Change Proposal at its meeting on 28 March 2007, before the proposal was formally submitted by Synergy.

MAC considered that there is a case to grant generators exporting small quantities to the system an exemption to register as a Market Participant in certain circumstances. However, MAC noted that System Management needs to be aware of the generator's existence, and the maximum potential load it can put on the system in case of a failure.

MAC also considered that it may not be appropriate to exempt generators that may import more than 10 MW from the system in the event of a generator failure, regardless of the limited quantities they may export.

To ensure the IMO and System Management are aware of the small generators existence, MAC suggested that, instead of the proposed provisions that small generators need not register, the proposal should ensure that small generators need to apply for exemption to register as a Market Participant.

The formal rule change proposal submitted by Synergy, and assessed in this report, takes into account the suggestions made by MAC.

MAC members were again invited to express their views on this proposed rule change at the 13 June 2007 meeting. No member expressed concerns with the rule changes as proposed in the formal Synergy proposal.

3.2. Submission from Alinta Sales

Alinta agreed that "onerous requirements that are unnecessary should be avoided. In particular, new entry and continued operation by smaller generators in the SWIS should be encouraged and facilitated wherever practicable". Alinta, therefore, supported Synergy's change proposal.

Alinta proposed to add one additional condition to the list of conditions that Synergy has proposed, which would further restrict the relevant exemptions to facilities that are allowed, under their Arrangements for Access, to export to or import from the system a maximum of 10MW.

In addition, Alinta suggested that the provisions allowing the exemption of persons from the requirements to register as a Market Generator in particular circumstances should also be extended to cover exemption of specific facilities.

Alinta agreed with the changes to the Market Rules proposed by Synergy and considered that the change proposal, with the additional changes proposed by Alinta, would better facilitate achievement of objectives (a), (b), (c) and (d) of the Market Rules.

3.3. Submission from CCI

In its submission, CCI considered that “the current Market Rules may act as a barrier to market entry for small generators connected to the SWIS. The requirement that all generators possessing greater than 10MW capacity must register as market participants, irrespective of the amount of electricity exported, imposes considerable burdens on small operators feeding small amounts of electricity into the SWIS. In order to maintain registration and effectively operate in the complex market environment, generators must outlay considerable time, effort and expense on an ongoing basis. The costs involved often outweigh the benefits of market participation, especially where small volumes of electricity are concerned.”

In CCI’s view “this proposed rule change will create a more flexible market regime, decreasing the regulatory burden and compliance costs for small generators. This should encourage market entry and the development of a more diverse range of electricity generators, potentially promoting more competition in WA’s wholesale electricity market.” CCI, therefore, supported the proposal.

3.4. Submission from Verve Energy

In its submission, Verve Energy stated that it “does not object to the intent of the proposed rule change. However, Verve Energy was “concerned that there are inadequate specific controls within the proposed clause 2.28.8A to prevent abuse or unintended outcome.” Verve Energy raised two key concerns with the proposal.

The first concern related to the adequacy of the specific controls in the proposed amendments. Verve Energy wrote in its submission:

“Clause 2.28.8A (a) refers to quantities that “are **not expected** to exceed 5MWh in a trading interval”. A party generating in excess of 5 MWh per trading interval could argue that it is not in breach of the rule as it did not **expect** to do so. A specific limit on the number of occasions that a party is able to exceed a maximum of 5MWh per trading interval should be incorporated in the rule.”

The second concern relates to the ability of the IMO to exercise discretion in granting or revoking an exemption. Verve Energy wrote in its submission:

“While a party seeking exemption under rule 2.28.8A may not alone influence market outcomes, what if there are a number of such parties utilising that rule, say 10? Exempt parties totalling in excess of 100 MW and delivering 50

MWh per trading interval may be more than enough to influence market outcomes.

Although the proposed clause 2.28.8A refers to the influence of clause 2.28.16, the proposed new clause effectively removes the discretion IMO currently has to determine an exemption. A party could argue that if it complies with the specific requirements of clause 2.28.8A then IMO should not exercise any discretion to preclude the exemption. Having achieved that exemption it appears that, as long as the conditions of the clause are being met by the party, there is then no ability for the IMO to overturn that exemption should there be a need to do so.

If clause 2.28.8A is to be implemented, clause 2.28.16 should be strengthened to enable IMO to revoke an exemption obtained by a party under clause 2.28.8A should the IMO determine abuse, unintended market outcome or any other reason that the IMO considers validated.”

Verve Energy indicated in its submission that it “only supports the proposed rule change if the suggested controls are implemented and the IMO’s discretionary powers are reinforced”.

Verve Energy also indicated that the proposed change will facilitate the achievement of market objectives if the additional controls suggested in Verve Energy’s submission are implemented.

3.5. Public Forums and Workshops

No public forums or workshops were held in relation to this Rule Change Proposal.

4. THE IMO'S ASSESSMENT AND DECISION

4.1. Assessment

4.1.1. Synergy's proposed changes to section 2.28

Synergy submitted that, for generators that only export a limited amount of energy, the requirement to register as a Market Generator may be onerous, bringing with it a degree of risk. It is proposed to allow generators which, while having higher installed capacity, export less than 10MW into the system at all times to be exempt from the requirements to register.

Synergy proposed to exempt these generators from the requirement to register as Market Participants when certain conditions are met.

The IMO agrees with Synergy that the requirements to register in the market may be onerous for operators of individual facilities that only export small quantities into the system. The IMO also considers that the treatment of such generators may be inequitable given that the Market Rules currently provide operators of facilities with installed capacities of less than 10MW with discretion whether or not to register in the market. However, the IMO also notes the importance of considering the impact of all generators on the security and reliability of the system.

Several small generators have already been granted with temporary exemptions by the IMO from the requirements to register as a Market Participant. This rule change process is expected to be completed prior to the expiry of these current exemptions.

4.1.2. Submissions

No objections were expressed regarding the general intent of the changes proposed by Synergy. However, a number of concerns were raised regarding the adequacy of the specific controls and conditions in the proposed amendments.

The IMO has discussed these concerns with both the parties that made the public submissions and the proponent of the rule changes, Synergy. The IMO proposes to make a number of amendments to the changes proposed by Synergy to address the concerns raised during the consultation process, as follows.

IMO's discretion in granting or revoking an exemption

In its submission Verve Energy was concerned that the proposed new clause effectively removes the discretion the IMO currently has under the Market Rules to determine an exemption. It is the IMO's understanding that the intent of the changes, proposed by Synergy in its formal submission, was to retain this discretion. The wording of the formal proposal resulted from a series of amendments implemented by Synergy following MAC's consideration of a discussion paper outlining the proposed changes. Specifically, to ensure that the IMO and System Management are aware of the small generators existence, MAC suggested that the proposal should indicate that small generators need to apply for exemption to register as a Market Participant.

The IMO, however, has examined further the drafting of the changes proposed by Synergy and agrees with Verve Energy's observation that the wording of the proposed changes may potentially remove the IMO discretion. The IMO proposes to renumber the proposed clause to follow clause 2.28.16, which provides a general discretion for the IMO to exempt parties from the requirements to register. It also proposes to clarify the proposed wording of the new specific exemption clause to ensure that relevant parties are required to apply for an exemption to the IMO and that the IMO retains its discretion as to whether such an exemption is granted.

Verve Energy was also of the view that the rules should be strengthened to enable IMO to revoke an exemption obtained by a party should the IMO determine abuse, unintended market outcome or any other reason that the IMO considers validated. The current general exemption clause (clause 2.18.16) already provides for an exemption to be granted on "any conditions the IMO considers appropriate", and thus the IMO already has the discretion to revoke exemptions where those conditions are not met. Given the concern expressed by Verve Energy, however, regarding future unintended market outcomes, the IMO proposes to:

- amend clause 2.18.16 to clarify that an exemption can be revoked at any time upon prior reasonable notice by the IMO; and
- amend the proposed clause 2.28.16B to clarify that the IMO may not grant an exemption if the IMO determines that with the exemption the cumulative effect of all exemptions is inconsistent with the Wholesale Market Objectives.

Adequacy of the specific controls

Both Alinta's and Verve Energy's submissions expressed concerns regarding the adequacy of the specific controls proposed in the proposed rule change. Alinta proposed to add an additional condition, which would further restrict the relevant exemptions to facilities that are allowed, under their Arrangements for Access, to export to or import from the system a maximum of 10MW. Verve Energy proposed the inclusion of a specific limit on the number of occasions that a party is able to exceed a maximum of 5MWh per trading interval.

The IMO has discussed in detail with Synergy the practicality of prescribing in the Market Rules the specific controls proposed by Alinta and Verve Energy. As a result of these discussions, the IMO considers that it would not be practicable to incorporate these specific controls in the Market Rules. The IMO proposes, however, to amend the current wording to provide that the IMO may give an exemption subject to any conditions the IMO considers appropriate and may revoke an exemption if any of these conditions, or the conditions listed in the new clause 2.28.16B, ceases to be satisfied. The IMO will include specific conditions in each exemption to ensure that the facilities subject to the exemption are regularly monitored by the IMO and that the exemption is re-examined in the circumstances where specific conditions are breached.

Alinta's proposal to extend the exemption to facilities

Alinta suggested that the provisions allowing the exemption of persons from the requirements to register as a Market Generator in particular circumstances, should also be extended to cover exemption of specific facilities.

The IMO notes that Synergy's proposal is aimed at avoiding a potential burden on small operators, with facilities exporting small amounts of electricity into the SWIS. The requirement to register additional facilities, even if these are relatively small, should not present similar difficulties for a Market Generator who is already registered in the market because it operates other generating facilities. Therefore, the IMO considers that it would not be appropriate to extend the proposed exemption provisions to generating facilities, as proposed by Alinta.

4.1.3. *The IMO's assessment*

According to clauses 2.4.2 of the Market Rules *"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 IMO' assessment against each of the Market Objectives is as follows:

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

Assessment: The IMO considers that this change, as amended to ensure that the IMO and System Management are aware of the existence of the relevant facilities and that the IMO is able to monitor compliance with the conditions of each exemption, is consistent with the operation of objective (a) of the Market Objectives.

The IMO further considers that the proposed change, by avoiding additional and unnecessary regulatory costs, will promote the economically efficient supply of electricity to a number of electricity consumers in the SWIS which are currently partially or fully supplied by small embedded generators.

(b) to encourage competition among generators and retailers in the South West interconnected system, including by facilitating efficient entry of new competitors

Assessment: The IMO considers that the proposed changes do not impact on, and therefore are consistent with, the operation of objective (b) of the Market Objectives.

(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

Assessment: The rule change will minimise potential discrimination against energy options involving embedded generators that only export small quantities of energy into the system.

Therefore, the IMO considers that the change will further the operation of market objective (c) of the Market Objectives. This assessment has been confirmed by submissions made during the consultation process on the proposed rule change.

(d) to minimise the long-term cost of electricity supplied to customers from the South West interconnected system

Assessment: This rule change will minimise unnecessary regulatory and compliance costs for a number of customers supplied by dedicated embedded generators on the SWIS. Therefore, the IMO considers that the proposed rule change will assist the operation of Market Objective (d).

(e) to encourage the taking of measures to manage the amount of electricity used and when it is used

Assessment: The IMO considers that the proposed changes do not impact on, and therefore are consistent with, the operation of objective (b) of the Market Objectives.

In accordance with Clause 2.4.3(b) of the Market Rules, in deciding whether or not to make Amending Rules, the IMO must also have regard to the practicality and cost of implementing the Amending Rules.

The proposed amendment will not require any changes to the market systems and therefore its implementation will not result in any additional system costs. While the change will require ongoing compliance monitoring by the IMO, the costs of this activity are expected to be minimal.

The change on the other hand is expected to avoid potentially significant regulatory and compliance costs for the relevant plant operators.

4.2. IMO's Draft Decision

The IMO's draft decision is to:

- Accept the changes to section 2.28 proposed by Synergy in its Rule Change Proposal, with the modifications proposed by the IMO in this draft Rule Change Report (see consolidated Rule Changes in Chapter 6).

The IMO has made its draft decision on the basis that the resulting Amending Rules will allow the Market Rules to better address the Market Objectives.

5. CALL FOR SUBMISSIONS

The IMO wishes to receive submissions regarding this draft Rule Change Report.

The submission period is 20 Business Days from the publication date of this Report. Submissions must be delivered to the IMO by close of business on Friday, 17 August 2007.

The IMO prefers to receive submissions by email to **marketadmin@imowa.com.au** , using the submission form available on the IMO website:
http://www.imowa.com.au/10_5_1_a_v_open_rule_change_proposals.htm

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

Independent Market Operator

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

Fax: (08) 9254 4399

6. PROPOSED AMENDING RULES

The following clauses are proposed to be amended as follows (~~deleted wording~~, new wording):

2.28.6. Subject to clauses 2.28.16 ~~and 2.28.16B~~, a person who owns, controls or operates a generation system which has a rated capacity that equals or exceeds 10 MW and is electrically connected to a transmission system or distribution system which forms part of the South West Interconnected System, or is electrically connected to that system, must register as a Rule Participant in the Market Generator class.

2.28.16. The IMO may determine that a person is exempted from the requirement to register in accordance with clauses 2.28.2, 2.28.6, 2.28.10, 2.28.11A or 2.28.13. An exemption may be given subject to any conditions the IMO considers appropriate and may, upon prior reasonable notice, be revoked at any time.

2.28.16B. Without limiting the generality and the operation of clause 2.28.16, the IMO may exempt under clause 2.18.16 a person who owns, controls or operates a generation system which has a rated capacity that equals or exceeds 10 MW and is electrically connected to a transmission system or distribution system which forms part of the South West Interconnected System, or is electrically connected to that system, from the requirement to register as a Rule Participant in the Market Generator class where all of the following are satisfied:

(a) positive MWh quantities measured by the interval meter or meters associated with that generation system are not reasonably expected to exceed 5 MWh in a Trading Interval;

(b) negative MWh quantities measured by the interval meter or meters associated with that generation system are not reasonably expected to increase by more than 5 MWh in a Trading Interval in the event of an outage of that generating system;

(c) System Management informs the IMO that it has determined that it does not require information about the relevant generation system to maintain Power System Security and Power System Reliability;

(d) The meter or meters measuring the generation system remains registered by an existing Market Customer; and

(e) The IMO determines that with the exemption the cumulative effect of all exemptions given under this clause 2.28.16B is not inconsistent with the Wholesale Market Objectives.

and the IMO may give the exemption subject to any conditions the IMO considers appropriate and may revoke the exemption if the IMO determines that any of these conditions, or any of the conditions in this clause 2.28.16B, ceases to be satisfied.