

Independent Market Operator



Rule Change Notice

Title: Alternative Maximum STEM Price - Monthly Adjustments

Ref: RC_2007_26

Date: 23 November 2007

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Independent Market Operator

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1. INTRODUCTION

Market Rule 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 submit this to the Independent Market Operator (IMO).

The IMO will assess the proposal and, within 5 Business Days of receiving the Rule Change Proposal Form, will notify the proponent whether the Rule Change 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 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.

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, 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.

2. THE RULE CHANGE PROPOSAL

2.1. The Submission

The IMO submitted, on 22 November 2007, a Rule Change Proposal regarding changes to clause 6.20.3 in the Wholesale Electricity Market Rules.

This Rule Change Notice is published according to Market Rule 2.5.7, which requires the IMO to publish a notice within 7 Business Days of receiving a Rule Change Proposal.

2.1.1. Submission details

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Date submitted:	22 November 2007
Urgency:	High
Change Proposal title:	Alternative Maximum STEM Price - Monthly Adjustments

2.2. Details of the Proposal

The basis for determining Energy Price Limits (the Maximum STEM Price and the Alternative Maximum STEM Price) is specified in the Market Rules. The Market Rules require the IMO to annually review the appropriateness of the value of the Energy Price Limits. In conducting the review, the IMO may propose revised values for the Maximum STEM Price and the Alternative Maximum STEM Price.

In accordance with the requirements of the Market Rules, in July 2007 the IMO commissioned its first annual review of the appropriateness of the value of the Energy Price Limits specified in the Market Rules. Following public consultation and the approval of the Economic Regulation Authority, the revised Energy Price Limits (including a revised Alternative Maximum STEM Price) became effective on 1 November 2007.

This 2007 review of the Energy Price Limits resulted in a revised Alternative Maximum STEM Price value of \$498 per MWh effective from 1 November 2007. The intent of the Market Rules is that this value be adjusted from 1 December 2007 and subsequent months in accordance with clause 6.20.3.

As currently worded, however, this clause is only workable in practice if the Alternative Maximum STEM Price is not revised in accordance with clause 6.20.11 of the Market Rules. For example, if a revised value is used with the clause, as it currently stands, in the monthly update of the Alternative Maximum STEM Price increases in oil prices since July 2006 will be double counted.

This rule change proposal aims to address this shortcoming and enable the monthly adjustments to the revised value of the Alternative Maximum STEM Price resulting from the review completed in 2007 as well as any subsequent reviews of the Energy Price Limits under the Market Rules.

2.3. The Proposal and the Market Objectives

Enabling monthly adjustments of the Alternative Maximum STEM Price to reflect crude oil price movements will promote economic efficiency in the market. This will assist in ensuring that the short run marginal costs of the highest cost plant on the SWIS do not exceed the Alternative Maximum STEM Price. Therefore, this will also provide confidence to existing and new participants that the costs of the relevant facilities could be recovered in the market.

3. WHETHER THE PROPOSAL WILL BE PROGRESSED FURTHER

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

The IMO has decided to process this Rule Change Proposal using the Fast Track Process, described in section 2.6 of the Wholesale Electricity Market Rules, on the basis that it satisfies the criteria in sections 2.5.9(c) of the Rules.

Section 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.*

Enabling monthly adjustments of the Alternative Maximum STEM Price to reflect crude oil price movements will assist in ensuring that the short run marginal costs of the highest cost plant on the SWIS do not exceed the Alternative Maximum STEM Price and, therefore, is essential for the effective operation of the market.

Given the time required to implement a rule change, the proposed rule change will not be effective in time for the Alternative Maximum STEM Price to be adjusted from 1 December 2007. However, it is important to avoid this situation in subsequent months, so that the IMO can adjust the Alternative Maximum STEM Price to reflect the changes in world oil prices. This rule change is therefore urgently required.

The projected timelines for processing this proposal are:

- This Rule Change Notice published 23/11/2007
- Consultation period 26/11/2007 - 14/12/2007
- Final Report published 21/12/2007

4. CONSULTATION

Any Rule Participant wishing to be consulted regarding this rule change is invited to notify the IMO within 5 Business Days of this notice being published.

The IMO prefers to receive notifications for consultation by email to marketadmin@imowa.com.au.

Notifications 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

5. PROPOSED AMENDING RULES

The following rule change is proposed:

6.20.3. Subject to clause 6.20.11, tThe Alternative Maximum STEM Price is to equal:

- (a) from 8 AM on September 1, 2006, \$480/MWh; and
- (b) from 8 AM on the first day of each subsequent month the sum of:
 - i. \$440/MWh multiplied by the amount determined as follows:
 - 1. the average of the Singapore Gas Oil (0.5% sulphur) price, expressed in Australian dollars, for the three months ending immediately before the preceding month as published by the International Energy Agency in its monthly Oil Market Report, or the average of another suitable published price as determined by the IMO, divided by;
 - 2. the average of the Singapore Gas Oil (0.5% sulphur) price, expressed in Australian dollars, for May, June and July 2006 or, if a revised Alternative Maximum STEM Price takes effect in accordance with clause 6.20.11, for the three months ending immediately before the month preceding the month in which the revised Alternative Maximum STEM Price takes effect, as published by the International Energy Agency in its monthly Oil Market Report, or the average of another suitable published price as determined by the IMO; and
 - ii from 8 AM on September 1, 2006, to 8 AM on 1 September, 2007, \$40/MWh, and for each subsequent 12-month period \$40/MWh multiplied by the CPI for the June quarter of the relevant 12-month period divided by CPI for the 2006 June quarter or, if a revised Alternative Maximum STEM Price takes effect in accordance with clause 6.20.11, the June quarter of the year in which the revised Alternative Maximum STEM Price takes effect, where CPI is the weighted average of the Consumer Price Index All Groups value of the eight Australian State and Territory capital cities as determined by the Australian Bureau of Statistics.

rounded to the nearest whole dollar, where a half dollar is rounded up, with the exception that from the date and time that a revised Alternative Maximum STEM Price takes effect in accordance with clause 6.20.11, the revised values supersede the values in 6.20.3(b)(i) and 6.20.3(b)(ii), and are to be the values used in calculating the Alternative Maximum STEM Price for each month subsequent to the month in which the revised Alternative Maximum STEM Price takes effect.