

Change Proposal No: RC_2007_26

Received date: 22 November 2007

Wholesale Electricity Market - Rule Change Proposal Form

Submitted by

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Address:	Level 22, Forest Centre, 221 St Georges Tce, Perth WA 6000
Date submitted:	22 November 2007
Urgency:	High
Change Proposal title:	Alternative Maximum STEM Price - Monthly Adjustments
Market Rule(s) affected:	Amendments to clause 6.20.3

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

Fax: (08) 9254 4399

Email: dora.guzeleva@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. Outline the issue concerning the existing Market Rules that is to be addressed by the proposed Market Rule change:

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.

Clause 6.20.3 provides for the Alternative Maximum STEM Price to be adjusted monthly to reflect movements in crude oil prices from month to month. 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. Explain the reason for the degree of urgency:

The 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 can only practically be applied if a revised value for the Alternative Maximum STEM Price does not replace the previous value.

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. To avoid this situation in subsequent months, it is proposed that this rule change proposal be progressed under the fast track process in the Market Rules. The IMO considers that this rule change proposal satisfies the fast track process criteria as it is both required to correct a manifest error and of a procedural nature.

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 following amendments, which have been drafted to minimise changes to the Market Rules, are proposed:

6.20.3. Subject to clause 6.20.11, ~~t~~The 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.

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

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

No costs are expected to be incurred as a consequence of implementing this rule change proposal.

The rule change will ensure that the Alternative Maximum STEM price can be adjusted on a monthly basis to reflect movements in crude oil prices and therefore will enable the Alternative Maximum STEM price to continue to be set at its efficient level, as intended by the Market Rules.