

Independent Market Operator



Final Market Rule Change Report

Title: SWIS Reliability Planning Criteria

Ref: RC_2007_28

Standard Rule Change Process

Date: 9 April 2008

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DOCUMENT DETAILS

IMO Notice No.: RC_2007_28
Report Title: SWIS Reliability Planning Criteria
Release Status: Public
Confidentiality Status: Public domain
Published in accordance with Market Rule 2.7.8

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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 Rule Change Process or a Fast Track Rule Change 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*

The IMO submitted, on 27 November 2007, a Rule Change Proposal regarding changes to clause 4.5.9 in the Wholesale Electricity Market Rules (Market Rules).

The proposal was processed using the Standard Rule Change Process, described in section 2.7 of the 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 has published the Rule Change Notice for the Proposal.
- The IMO must publish a Draft Rule Change report within 20 Business Days of the end of the first submission period.

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- The second Public Submission period is for 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.

The key dates in processing this Rule Change Proposal were:

- The Rule Change Notice for this Proposal was published on the IMO website on 28 November 2007
- The first Public Submission period on the Rule Change Proposal ended on 10 January 2008
- The Draft Rule Change Report was published on 8 February 2008
- The second Public Submission period was from 9 February to 10 March 2008
- This Final Rule Change Report is published by the IMO on 9 April 2008

Based on the response received from interested parties, and the IMO's assessment of the proposed changes against the Market Objectives, the IMO's decision is to implement the Rule Change Proposal as outlined in Section 7 of this report.

This Final Rule Change Report on the Rule Change Proposal has been prepared by the IMO in accordance with clause 2.7.8 of the Market Rules.

2. THE RULE CHANGE PROPOSAL

2.1. *The Submission*

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Date submitted:	27 November 2007
Urgency:	Normal

2.2. *Details of the Proposal*

The Planning Criteria to be used in the Long Term Projected Assessment of System Capacity, which is published in the Statement of Opportunities Report, are set out in clause 4.5.9 of the Market Rules. One criteria is that there must be sufficient capacity to meet the forecast peak demand plus a reserve margin based, to a large extent, on the size of the largest generating unit on the system.

The IMO submitted that, because the size of the largest generating unit may not change for some years, it is likely that the reserve margin will reduce as a proportion, as the maximum demand on the system grows. The IMO therefore proposed that the reserve margin be set at the larger of the largest unit size or a defined percentage of the forecast maximum demand. This latter term, proposed to be set at 8.2%, means that the reserve margin will increase in line with the forecast maximum demand.

The IMO proposed this rule change as a result of a study undertaken by CRA International, which has been published on the IMO website. The proposed reserve margin of 8.2% has also been developed through a process that incorporated input from Market Participants and other interested parties. Comparisons with reliability criteria in other markets were made through reviewing reserve margins applying in other jurisdictions. A cost-benefit analysis of the change to the reserve plant margin was also undertaken. This analysis is available in the CRA International report, available on the IMO website.

2.3. *Amending Rules Proposed by the IMO*

The amending rules proposed by the IMO are outlined in Section 7 of this report.

3. SUBMISSIONS RECEIVED IN THE FIRST SUBMISSION PERIOD

The first submission period for this Rule Change Proposal was between 28 November 2007 and 10 January 2008. The IMO received two submissions, from Landfill Gas and Power, and Synergy. A summary of these submissions is listed below. The submissions 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 Proposal at its meeting on 14 November 2007, before it was formally submitted by the IMO.

MAC expressed general support for the proposed change. MAC also discussed if 8.2% was an appropriate level for the reserve margin. System Management noted that it would have preferred a larger margin, but deemed 8.2% as an adequate compromise between system security and cost to the market. MAC also noted that, as the overall system demand increases over time, the reserve margin will also increase in real MW terms.

At the MAC meeting on 12 December 2007, members were invited to express their view on the formal proposal. MAC supported the proposed change. No member expressed concerns with the proposal.

3.2. Landfill Gas & Power (LGP)

LGP expressed its support for the IMO's proposal as the proposal sought to ensure that, as system load increases, system reliability is maintained at its current level. LGP considered that the proposed changes will achieve this by facilitating sufficient reserve capacity onto the system to ensure that the level of involuntary supply interruptions is kept to a minimum. LGP also accepted the suggested percentage of 8.2% as an appropriate level.

3.3. Synergy

Synergy expressed its support for the IMO's proposal at this stage. Synergy viewed IMO's proposal as having some technical merit and did not foresee any material adverse impacts on Synergy's operations. Synergy also accepted the IMO's view that the proposed rule change would support the Market Objective "to promote the economically efficient, safe and reliable production and supply of electricity and electricity related services in the South West interconnected system".

3.4. Public Forums and Workshops

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

3.5. *The IMO's Response to the First Round of Submissions*

No interested party expressed any concern regarding the proposed change. In their submissions, Landfill Gas and Power, and Synergy expressed their support for the proposal.

4. THE IMO'S DRAFT DECISION

Based on the submissions received and its assessment against the Wholesale Market Objectives, the IMO's draft decision was to implement the proposed changes to clause 4.5.9 as proposed by the IMO and outlined in Section 7 of this report.

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

5. SUBMISSIONS RECEIVED IN THE SECOND SUBMISSION PERIOD

Following the Draft Rule Change Report publication on the IMO website, the second submission period was between 8 February and 10 March 2008. The IMO did not receive any submissions during the second submission period.

The IMO therefore considers that both the proposal and the IMO's draft decision have the support of the Participants in the Wholesale Electricity Market.

6. THE IMO'S ASSESSMENT AND THE IMO'S FINAL DECISION

No interested party expressed any concerns regarding the amendments to the Market Rules as outlined in the Draft Rule Change Report.

6.1. *The IMO's Assessment of the Rule Change Proposal*

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's assessment of the Rule Change Proposal against each of the Market Objectives, which was also published in the IMO's Draft Report, 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.*

The IMO considers that the proposal supports the achievement of market objective (a). The proposal is intended to ensure that system reliability is maintained at a satisfactory level as total system demand increases. It achieves this by facilitating sufficient certified reserve capacity onto the system to ensure that the level of involuntary supply interruptions is kept to a minimum. In its submission, Landfill Gas and Power supported this assessment.

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

The IMO considers that the proposal does not impact on, and therefore is consistent with, the operation of market objective (b).

- (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.*

The IMO considers that the proposal does not impact on, and therefore is consistent with, the operation of market objective (c).

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

Involuntary supply interruptions can impose significant costs on end-use customers. These comprise both indirect costs, such as loss of amenity and loss of production, and direct costs associated with the potential installation and operation of back-up generation. The IMO considers that the proposal supports the achievement of market objective (d) by ensuring that the reserve margin on the system is maintained as system load increases and thus minimising the cost of supply interruptions to customers.

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

The IMO considers that the proposal does not impact on, and therefore is consistent with, the operation of market objective (e).

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 changes to clause 4.5.9 will not require changes to the Wholesale Electricity Market System operated by the IMO. While the change will involve some additional costs as a result of the increase in the system reserve margins as demand grows, these costs will be offset by the benefits of maintaining reliability of electricity supply at its current level and minimising supply interruptions to customers.

6.2. The IMO's Final Decision

The IMO's final decision is to:

- Implement the proposed changes to clause 4.5.9 as proposed. This will amend the clause to set the reserve margin for the SWIS to be the greater of 8.2% of the forecast peak demand and the capacity of the largest generating unit measured at 41°C, while maintaining a margin to maintain frequency keeping capability.

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

The wording of the relevant Amending Rules is presented in Section 7 of this report.

6.3. Amending Rules Commencement

The amendments to clause 4.5.9 of the Wholesale Electricity Market Rules will commence at **08.00am** on **10 April 2008**.

7. AMENDING RULES

The following clauses are amended (~~deleted wording~~, new wording):

7.1. **Clause 4.5.9**

- 4.5.9. The Planning Criterion to be used by the IMO in undertaking a Long Term PASA study is that there should be sufficient available capacity in each Capacity Year during the Long Term PASA Planning Horizon to:
- (a) meet the forecast peak demand (including transmission losses and allowing for Intermittent Loads) supplied through the SWIS ~~even after the outage of the largest generation unit~~ plus a reserve margin equal to the greater of:
 - i. 8.2% of the forecast peak demand (including transmission losses and allowing for Intermittent Loads); and
 - ii. the maximum capacity, measured at 41°C, of the largest generating unit;

~~and~~ while maintaining the Minimum Frequency Keeping Capacity for normal frequency control. The forecast peak demand should be calculated to a probability level that the forecast would not be expected to be exceeded in more than one year out of ten; and
 - (b) limit expected energy shortfalls to 0.002% of annual energy consumption (including transmission losses).