

Independent Market Operator



Rule Change Notice

Title: Calculation of MCAP

Ref: RC_2008_05

Date: 14 January 2008

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1. INTRODUCTION

Market Rule 2.5.1 of the Wholesale Electricity Market Amending Rules (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 proposal form, will notify the proponent whether the 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 market objectives 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 Rule Change Process or a Fast Track Rule Change 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

Verve Energy submitted, on 4 January 2008, a Rule Change Proposal regarding changes to clauses 6.14.2 and 6.14.4 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

Name:	Andrew Everett
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Date submitted:	4 January 2008
Urgency:	3 - High
Change Proposal title:	Calculation of MCAP

2.2. Details of the Proposal

Verve Energy submits that it has the obligation to follow the load in the Wholesale Electricity Market and, unlike Independent Power Producers (IPPs), cannot specify pay-as-bid prices for energy scheduled to balance the market. Whenever Verve Energy deviates from its net contract position it is exposed to the Marginal Cost Administrated Price (MCAP), which may not reflect the true cost of the energy being dispatched.

Verve Energy submits that MCAP is determined by the Short Term Energy Market (STEM) auction, and only recalculated if the Relevant Quantity for the Trading Interval is not between 95% and 105% of the Scheduled System Load for that Trading Interval. Verve Energy also submits that even small percentage fluctuations in the Relevant Quantity can affect the type of Verve Energy plant dispatched up or down by System Management.

Further, Verve Energy contends that significant fluctuations in the value of the Relevant Quantity are caused when Market Generators, other than Verve Energy, deviate upwards from their Resource Plans. Verve Energy submits that in order to arrive at a competitive market MCAP such deviations should be reflected in the Relevant Quantity, which already takes into account downward deviations of IPP plant.

To address these two issues, Verve Energy proposes that MCAP should always be recalculated for each Trading Interval and that the calculation of the Relevant Quantity should be amended, to also reflect upward deviations by Market Generators from their Resource Plans.

According to Verve Energy's submission, with these amendments the Market Rules will more accurately reflect the market cost of the dispatched generation and lead to more accurate prices for balancing energy, where these prices could be either higher or lower than under the current Market Rules.

Verve Energy submits that the cumulative effect of any failure to accurately reflect the cost of generation may, over time, have a significant detrimental financial impact for some Market Participants, while inappropriately rewarding others.

The amendments proposed by Verve Energy are included in section 5 of this Rule Change Notice.

The IMO has received a preliminary quote from its software vendor that the proposed changes would cost around \$28,000 to implement.

2.3. *The Proposal and the Wholesale Market Objectives*

Verve Energy submits that the proposed Rule Change supports the following Wholesale Market Objective:

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

Adoption of the proposed Rule Change will, according to Verve Energy's submission, enable generators and retailers which are buying or selling in balancing to receive or pay more accurate and market reflective prices for balancing energy.

3. WHETHER THE PROPOSAL WILL BE PROGRESSED FURTHER

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

Verve Energy proposed that the change be processed using the Fast Track Process, on the basis that it satisfies the criteria in section 2.5.9(c) of the Market Rules. Verve Energy considers that the current possibility that MCAP may be widely divergent from the actual cost of providing balancing energy is detrimental to the effective and reliable operation of the market.

The IMO has decided to process this Rule Change Proposal using the Fast Track Process, described in section 2.6 of the Market Rules, on the basis that it satisfies the criteria in section 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.*

The IMO notes that the current 5% thresholds in the Market Rules, before MCAP is recalculated, were set due to concerns regarding the exercise of market power in bidding behaviour. However, the practical operation of the market suggests that the thresholds may have negative impact on participants, as a result of the risk that they introduce for the balancing generator. The IMO agrees that this change is essential for the effective operation of the market and, in order to avoid future negative financial implications for Market Participants, it should be progressed using the Fast Track Rule Change Process.

The projected timelines for processing this proposal are:

- This Rule Change Notice published 14/01/2008
- Consultation period 16/01/2008 - 05/02/2008
- Final Report published 12/02/2008

4. CONSULTATION

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

The IMO will be holding a workshop on this proposal. This workshop is scheduled for 23 January 2008. Rule Participants wishing to participate in the workshop must notify the IMO of their attendance before Friday 18 January 2008.

In addition, the IMO would like to receive written input on the proposal from Rule Participants, using the submission form available on the Market Rule Change summary page on the IMO website:

http://www.imowa.com.au/10_5_1_MarketRulesChangeSummary.html.

The IMO prefers to receive confirmation of workshop attendance and written submissions by email to **marketadmin@imowa.com.au**.

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

5. PROPOSED AMENDING RULES

Verve Energy proposes the following amendments to the Market Rules (~~deleted words, added words~~):

Clause 6.14.2

6.14.2. The value of MCAP for a Trading Interval is calculated as follows:

- (a) If the STEM Auction was suspended for the Trading Interval under clause 6.10.1, and the process described in clause 6.9 cannot subsequently be completed by the time MCAP must be published under clause 6.14.1, the IMO must determine MCAP for the Trading Interval to be the value of MCAP for the equivalent Trading Interval:
 - i. if the IMO is determining MCAP for a Business Day, MCAP will be the value for the most recent Trading Day in the past which is a Business Day and commenced on the same day of the week;
 - ii. if the IMO is determining MCAP for a day which is not a Business Day, MCAP will be the value for the most recent Trading Day in the past which is not a Business Day.
- (b) If the STEM Auction was not suspended for the Trading Interval under clause 6.10.1, or was suspended but the process described in clause 6.9 can subsequently be completed for the purposes of this clause by the time MCAP must be published under clause 6.14.1, ~~then:~~
 - ~~i. If any of the following circumstances apply, then MCAP must be calculated in accordance with clause 6.14.3:
 - 1. [Blank]
 - 2. the Relevant Quantity for the Trading Interval is not between 95% and 105% of the Scheduled System Load for that Trading Interval.
 - 3. [Blank]
 - 4. [Blank]~~
 - ~~ii. If paragraph (i) does not apply then MCAP equals the STEM Clearing Price for that Trading Interval.~~

Clause 6.14.4

6.14.4. For the purposes of clauses ~~6.14.2 and~~ 6.14.3:

- (a) the “Operational System Load Estimate” for a Trading Interval is the estimate that the IMO receives from System Management of the total Loss Factor adjusted MWh consumption supplied via the SWIS during that Trading Interval. This estimate equals the total loss adjusted generator sent out energy as estimated from generator operational meter data and the use of state estimator systems;
- (b) the “Resource Plan Load” for a Trading Interval is total consumption as specified in applicable Resource Plans relating to that Trading Interval, including for Interruptible Loads, Curtailable Loads, Dispatchable Loads and Non-Dispatchable Loads; and
- (c) the “Scheduled System Load” for a Trading Interval is the sum of:
 - i. the sum over all Resource Plans for that Trading Interval of the total Loss Factor adjusted generation scheduled in each Resource Plan;
 - ii. the sum over all Resource Plans of the shortfall quantity for that Trading Interval as described in clause 6.11.1(e); and
 - iii. the Net Contract Position of the Electricity Generation Corporation for that Trading Interval.
- (d) the “Relevant Quantity” equals:
 - i. the Operational System Load Estimate for the Trading Interval; plus
 - ii. IMO’s estimate of the total MWh demand curtailed during that Trading Interval (if any); ~~minus plus~~
 - iii. the IMO’s estimate of the amount by which energy provided by Market Generators other than the Electricity Generation Corporation ~~falls short of~~ deviates from the relevant Resource Plan quantities. This estimate equals:
 - 1. the Operational System Load Estimate for the Trading Interval; minus
 - 2. the total Loss Factor adjusted generator sent out energy of the Electricity Generation Corporation based on SCADA data for the Trading Interval; minus
 - 3. the sum over all Resource Plan Submissions of the total Loss Factor adjusted sent out energy included in each Resource Plan for the Trading Interval; minus

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4. the sum over all Resource Plan Submissions of the absolute value of each shortfall included in accordance with clause 6.11.1(e) for the Trading Interval