

Independent Market Operator



## Rule Change Notice

### Title: Dispatch Support Ancillary Services

Ref: RC\_2008\_12

Fast Track Rule Change Process

Date: 18 February 2008

## CONTENTS

<b>1. INTRODUCTION .....</b>	<b>2</b>
<b>2. THE RULE CHANGE PROPOSAL .....</b>	<b>3</b>
2.1. The Submission.....	3
2.2. Details of the Proposal .....	3
2.3. The Proposal and the Wholesale Market Objectives .....	4
<b>3. WHETHER THE PROPOSAL WILL BE PROGRESSED FURTHER.....</b>	<b>5</b>
<b>4. CONSULTATION .....</b>	<b>7</b>
<b>5. PROPOSED AMENDING RULES .....</b>	<b>8</b>

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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*

System Management submitted, on 14 February 2008, a Rule Change Proposal regarding changes to clauses 2.23.12, 3.11.18 and 3.13.1, and the addition of new clauses 3.11.8A-D in the Wholesale Electricity Market Amending Rules (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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<b>Date submitted:</b>	14 February 2008
<b>Urgency:</b>	3 - High
<b>Change Proposal title:</b>	Dispatch Support Ancillary Services

### 2.2. *Details of the Proposal*

System Management submits that the Market Rules make provision for a class of Ancillary Services called “Dispatch Support”. Dispatch Support arrangements are designed to allow the dispatch of facilities to support the security and reliability of the network.

System Management currently utilises several strategically located Verve Energy facilities for Dispatch Support purposes, but may also utilise facilities belonging to other Market Participants. System Management submits that currently limited mechanisms exist for System Management to procure – and pay for – the Dispatch Support services it acquires. This has the effect that Verve Energy is not compensated for this out-of-merit use, as System Management’s allowable revenue for Ancillary Services did not seek provision for Dispatch Support (the value of “D” in “Cost\_LRD”, as defined in clause 2.23.12(d)(iii) was set at zero).

System Management submits that it may make an application to vary the Ancillary Services allowable revenue where it is necessary to procure additional Ancillary Services, or, in this case, to ensure that appropriate compensation is paid for those facilities that offer Dispatch Support services pursuant to the Market Rules.

Clause 2.23 of the Market Rules, which provides for System Management’s allowable revenue for both system operation services and Ancillary Services, may be adjusted within a “review period” in certain circumstances. Prima facie, System Management may apply to include a Dispatch Support component within the allowable revenue.

According to System Management’s proposal, both System Management and the IMO are of the view that it is not feasible to propose a particular amount for Dispatch Support, as this value will vary significantly on a month-by-month basis, depending on the amount of dispatch support obtained. Consequently, it is considered that adopting a formula as

the value of “D” will best reflect the amount of Dispatch Support acquired in any given month.

System Management submits that the Economic Regulation Authority (ERA) has expressed doubts concerning whether System Management may propose, and the ERA may approve, a value for Dispatch Support which is based around a formula; that is, the ERA considers that the Market Rules may require System Management to propose a particular amount for Dispatch Support.

In order to deal with this potential impasse, and to ensure Verve Energy and other potential suppliers of Dispatch Support are adequately compensated, System Management proposes to amend the Market Rules to remove the value of “Dispatch Support” from the clause 2.23 allowable revenue and budget approval processes.

System Management submits that it is important to note that System Management does not propose to amend the Market Rules to remove regulatory oversight/approval of Dispatch Support arrangements, merely to remove Dispatch Support from impacting upon the budget. Therefore System Management must continue to satisfy the requirements of clause 3.11.9 of the Market Rules before entering into Ancillary Service Contracts.

However, to address concerns that regulatory approval of an intended Ancillary Service Contract may cause substantial delay, System Management’s proposal states that the ERA “may” engage in public consultation, but does not mandate this. Further, the proposal constrains the ERA to make a decision whether to approve the intended Dispatch Support arrangement within 20 business days of receiving an application from System Management.

The proposal aims to achieve the following outcomes:

- allow System Management to enter into Dispatch Support arrangements, provided that regulatory approval is given; and
- remove the concept of Dispatch Support from “Cost\_LRD” in clause 2.23 (budgets) of the Market Rules, while ensuring that the settlement mechanisms remain unchanged.

### ***2.3. The Proposal and the Wholesale Market Objectives***

System Management submits that the proposal would allow the Market Rules to better address market objectives (a), (b) and (d).

The changes as submitted would promote the economically efficient, safe and reliable production and supply of electricity and electricity related services in the South West interconnected system, as well as minimise the long-term cost of electricity through the provision of Dispatch Support arrangements, rather than reliance on potentially significant network augmentations.

### 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.

System Management proposed that the change be processed using the Fast Track Rule Change Process, on the basis that it satisfies the criteria in section 2.5.9(a) of the Market Rules. System Management considers that the proposed change is procedural as while it removes the costs of the Dispatch Support Ancillary Service from the budgetary provisions related to System Management, it retains the existing framework which governs System Management entering into related contractual arrangements. Importantly, the change will not impact upon System Management's obligations to satisfy the requirements of clause 3.11.9 with regard to any ancillary service contracts it intends to enter into. Clause 3.11.9 requires System Management to seek to minimise the costs of meeting its Ancillary Service requirements and to give consideration to using a competitive tender process.

The IMO has decided to process this Rule Change Proposal using the Fast Track Rule Change Process, described in section 2.6 of the Market Rules, on the basis that it satisfies the criteria in section 2.5.9(a) of the Market 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 intent of the Market Rules is that providers of Dispatch Support services should receive adequate compensation when instructed by System Management to run. However, the provisions in the current rules for compensating providers are inadequate, as it is not practicable to predict a lump sum in advance as part of the budgetary process to allocate for the cost of these services. This proposal aims to amend the Market Rules to allow for the Dispatch Support Ancillary Service contracts to be approved outside of the budget approval timelines and processes. However, other important aspects of the relevant approval processes are retained by the proposed change. Therefore, the IMO agrees that this change is of a procedural nature and, in order to avoid further negative financial impact on Market Participants, it should be progressed using the Fast Track Rule Change Process.

As this change includes amending a protected provision, clause 2.23.12 (see clause 2.8.13 in the Market Rules) any change resulting from this proposal must be approved by the Minister for Energy after the IMO's Final Report is published.

The projected timelines for processing this proposal are:

- This Rule Change Notice is published 18/02/2008
- Consultation period 19/02/2008 - 11/03/2008
- Final Report published 18/03/2008
- Final Report approved by the Minister 17/04/2008

#### 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 Thursday 28 February 2008. Rule Participants wishing to participate in the workshop must notify the IMO of their attendance before Tuesday 26 February 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](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](mailto: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

System Management proposes the following amendments to the Market Rules (~~deleted words, added words~~):

### ***Clause 2.23.12***

- 2.23.12 The Economic Regulation Authority must take the following into account when determining the allowable revenue of System Management:
- ...
- (d) the determination of the Allowable Revenue of Ancillary Service provision must take into account the payment structure set out in clause 3.13, and the Economic Regulation Authority must determine values for:
- i. the reserve availability payment margin applying for Peak Trading Intervals, Margin\_Peak, which must take account of:
1. the margin the Electricity Generation Corporation could reasonably have been expected to earn on energy sales forgone due to the supply of Spinning Reserve during Peak Trading Intervals;
2. the loss in efficiency of the Electricity Generation Corporation Registered Facilities that System Management has scheduled to provide Spinning Reserve during Peak Trading Intervals that could reasonably be expected due to the scheduling of those reserves;
- ii. the reserve availability payment margin applying for Off-Peak Trading Intervals, Margin\_Off-Peak, which must take account of:
1. the margin the Electricity Generation Corporation could reasonably have been expected to earn on energy sales forgone due to the supply of Spinning Reserve during Off-Peak Trading Intervals;
2. the loss in efficiency of the Electricity Generation Corporation Registered Facilities that System Management has scheduled to provide Spinning Reserve during Off-Peak Trading Intervals that could reasonably be expected due to the scheduling of those reserves;
- iii Cost\_LRD, which must cover the costs for providing the Load Rejection Reserve, and System Restart and Dispatch Support

Ancillary Services, but does not take into account the costs for providing Dispatch Support Ancillary Services.

***Clause 3.11.8***

- 3.11.8 System Management may enter into an Ancillary Service Contract with a Rule Participant other than the Electricity Generation Corporation, for Spinning Reserve and Load Following Ancillary Services, where:
- (a) it does not consider that it can meet the Ancillary Service Requirements with the Electricity Generation Corporation's Registered Facilities; or
  - (b) the Ancillary Service Contract provides a less expensive alternative to Ancillary Services provided by the Electricity Generation Corporation's Registered Facilities.

***Clauses 3.11.8A-D (all new)***

- 3.11.8A System Management may enter into an Ancillary Service Contract with a Rule Participant for Load Rejection Reserve, System Restart and Dispatch Support Ancillary Services.
- 3.11.8B System Management must seek the approval of the Economic Regulation Authority before entering into an Ancillary Service Contract.
- 3.11.8C The Economic Regulation Authority must, within 20 business days of receiving an application from System Management under clause 3.11.8B, approve an Ancillary Service Contract which satisfies the requirements of clause 3.11.9.
- 3.11.8D The Economic Regulation Authority may undertake a public consultation process in determining whether to approve the Ancillary Service Contract for Dispatch Support Service. In determining whether to undertake a public consultation process, the Economic Regulation Authority must have regard to the terms of the Ancillary Service Contract, in particular the length of its intended operation and whether a need exists to expedite the approval process.

***Clause 3.13.1***

- 3.13.1 The total payments by the IMO on behalf of System Management for Ancillary Services in accordance with Chapter 9 comprise:
- ...
- (d) Cost\_LRD, the monthly amount for Load Rejection Reserve, and System Restart services and Dispatch Support services, determined in accordance with System Management's budget process described in clause 2.23, and Dispatch Support service determined in accordance with clause 3.11.8C.