

The background of the lower half of the page is a photograph of a wind farm and power lines, overlaid with a semi-transparent blue filter. On the left, several white wind turbines are visible, with their blades extending outwards. On the right, a tall metal lattice tower for power lines stands prominently. The overall scene is set against a clear sky.

Independent Market Operator

Rule Change Notice

**Title: System Management
Review Period Budget
Coverage Amendment**

Ref: RC_2009_23

Standard Rule Change Process

Date: 14 July 2009

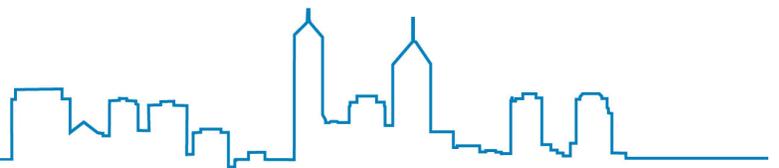
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1. THE RULE CHANGE PROPOSAL

1.1. The Submission

On the 15 July 2009 the Economic Regulation Authority (ERA) submitted a Rule Change Proposal regarding the addition of clause 3.13.3A and the amendment of clauses 2.23.1, 2.23.2, 2.23.3, 2.23.5, 2.23.7, 2.23.12, 3.11.11, 3.11.14, 3.13.1, 3.13.3, and 3.22.1 to the Wholesale Electricity Market 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.

1.1.1 Submission details

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Address:	Level 6, Governor Stirling Tower, 197 St George's Terrace
Date submitted:	15 July 2009
Urgency:	Standard Rule Change Process
Change Proposal title:	System Management Review Period Budget Coverage Amendment
Market Rule(s) affected:	2.23.1, 2.23.2, 2.23.3, 2.23.5, 2.23.7, 2.23.12, 3.11.11, 3.11.14, 3.13.1, 3.13.3, 3.13.3A (new) and 3.22.1

1.2. Details of the Proposal

Background

System Management has the responsibility of determining all Ancillary Service Requirements in accordance with the South West interconnected system (SWIS) Operating Standards and the Ancillary Service standards. This is a quantity determination and not a payment determination. System Management also has responsibility for procuring these Ancillary Service Requirements, with Verve Energy required to provide the remaining requirements.

Ancillary Service payments are either determined from the terms in Ancillary Service Contracts or as specified in the Wholesale Electricity Market Rules (Market Rules). These payments are made by the Independent Market Operator.

Currently, clause 2.23 of the Market Rules (Determination of System Management's budget) is drafted as if the Ancillary Services are paid out of System Management's budget. It thus imposes on System Management a requirement to propose an Ancillary Services budget for the relevant three-yearly Allowable Revenue Review Period.



Proposal

The primary purpose of this Rule Change Proposal is to remove the requirement for System Management to propose an Ancillary Services budget for the relevant three-yearly Review Period. This will in effect leave System Management with the requirement to propose a budget to cover its system operation services only (see clause 2.23.1(a)).

The Rule Change Proposal also proposes breaking Cost_LRD down into two parts:

- Cost_LR to cover load rejection reserve and system restart services. This will be covered in the three-yearly Allowable Revenue review.
- Dispatch Support service component. This will be determined from information provided monthly by System Management.

This Rule Change Proposal also proposes to amend the Market Rules to state that the:

- IMO is responsible for proposing the Margin_Peak, Margin_Off-Peak parameters; and
- System Management is responsible for proposing the Cost_LR parameter.

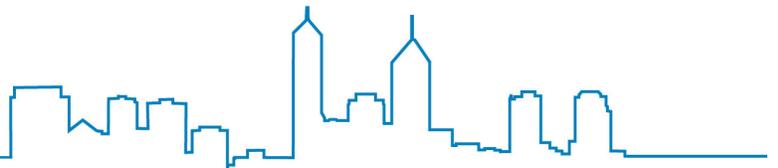
This would be a new responsibility for both the IMO and System Management if this Rule Change Proposal was to proceed.

Overview of proposed rule changes

In order to remove the requirement for System Management to propose an Ancillary Services budget for the relevant three-yearly Review Period and place the responsibility for proposing Margin_Peak, Margin_Off-peak and Cost_LR onto the IMO and System Management, it is proposed to amend clauses 2.23.1, 2.23.2, 2.23.3, 2.23.5, 2.23.7, 2.23.12, 3.11.11, 3.11.14, 3.13.1, 3.13.3, 3.13.3A (new) and 3.22.1 in the Market Rules.

An explanation of the proposed amendments to the abovementioned clauses are as follows:

Clause	Explanation of proposed amendments
2.23.1	Modified subclause (a) is an editorial change only. Deleted subclause (b) recognises that System Management does not have to cover Ancillary Service payments out of their budget.
2.23.2	Editorial change only.
2.23.3	Modified subclause (c) is an editorial change only.
2.23.5	Editorial change only.
2.23.7	Editorial change only.
2.23.12	Deleted subclauses (d) and (e) and moved (d) to new clause 3.13.3A subclause (a). With the Ancillary Service budget removed from System Management budget, subclause (d) did not fit here any more. Subclause (e) is deleted altogether to acknowledge that Margin_Peak and Margin_Off-Peak are to be determined to set the total market availability cost rather than only Verve Energy availability cost.
3.11.11	Deleted subclause (d) recognises that System Management does not have to cover Ancillary Service payment out of their budget. There is no apparent budget for Ancillary Services as they are paid in accordance with the Market Rules



Clause	Explanation of proposed amendments
	formulas.
3.11.14	Modified subclause (b) is an editorial change only. Deleted subclause (c) recognises that System Management does not have to cover Ancillary Service payments out of their budget.
3.13.1	This amendment is a clean up of the Market Rules subsequent to the commencement of Amending Rules as set out in Rule Change RC_2008_12 <i>Dispatch support ancillary services</i> . Prior to the commencement of the Amending Rules set out in RC_2008_12, Cost_LRD used to refer to Load Rejection, System Restart and Dispatch Support. RC_2008_12 removed Dispatch Support from Cost_LRD.
3.13.3	Editorial changes only.
3.13.3A	Subclause (a) added here is the original clause 2.23.12 subclauses (d) and (e), with the IMO being responsible for proposing Margin_Peak and Margin_Off-Peak (this is a new responsibility for the IMO) and System Management being responsible for proposing Cost_LR (this is a new responsibility for System Management). Subclause (c) added here is the original clause 2.23.3 subclause (b) repeated. Subclause 3.13.3A (b) allow for Dispatch Support ancillary service to be provided outside clause 3.11.8B.
3.22.1	Editorial changes only.

Note that clause 2.23 is a protected provision under Market Rule clause 2.8.13 and will require Ministerial Approval.

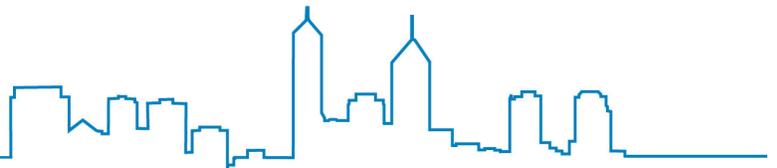
1.3. The Proposal and the Wholesale Market Objectives

The ERA considers that this rule change proposal will remove the ambiguities regarding ancillary services in relation to System Management budget review and the responsibilities for setting the payment parameters. This improves the integrity of the Market Rules and therefore is consistent with the operation of the Wholesale Market Objectives.

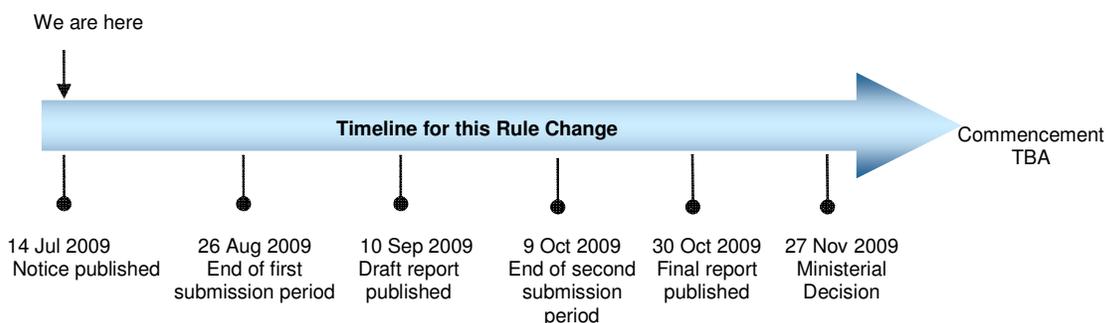
2. WHETHER THE PROPOSAL WILL BE PROGRESSED FURTHER

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

The IMO has decided to process this Rule Change Proposal using the Standard Rule Change Process, described in section 2.7 of the Market Rules.



The projected timelines for processing this proposal are:



3. CALL FOR SUBMISSIONS

The IMO is seeking submissions regarding this proposal. The submission period is 30 Business Days from the publication date of this notice. Submissions must be delivered to the IMO by 5.00pm on **Wednesday 26 Aug 2009**.

The IMO prefers to receive submissions by email to **market.development@imowa.com.au** using the submission form available on the IMO website:

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

Submissions may also be sent to the IMO by fax or post, addressed to:

Independent Market Operator
Attn: Manager Market Development and System Capacity
PO Box 7096
Cloisters Square, Perth, WA 6850

Fax: (08) 9254 4399

4. PROPOSED AMENDING RULES

The IMO proposes the following amendments to the Market Rules (~~deleted words~~, added words):

2.23.1. For the purposes of this clause 2.23, the services provided by System Management are:

- (a) system operation services, including all of System Management's functions and obligations under these Market Rules, ~~except the provision of Ancillary Services; and~~

~~(b) System Management's functions and obligations under these Market Rules in relation to the provision of Ancillary Services.~~

2.23.2. For each year until the process referred to in clause 2.23.3 to 2.23.10 applies, the Shareholding Minister must determine the budget of System Management for ~~each of~~ the services described in clause 2.23.1.

2.23.3. For each Review Period, System Management must seek the approval of its Allowable Revenue from the Economic Regulation Authority in accordance with the following:

...

(c) by 31 March of the year in which the Review Period commences, the Economic Regulation Authority must determine the Allowable Revenue of System Management for the Review Period for ~~each of~~ the services described in clause 2.23.1.

2.23.5. Following the first determination of the Allowable Revenue of System Management by the Economic Regulation Authority in accordance with clause 2.23.3, by 30 April each year System Management must prepare a budget proposal for ~~each of~~ the services described in clause 2.23.1 for the coming Financial Year.

2.23.7. Where the revenue earned for a service described in clause 2.23.1 via System Operation Fees ~~or Ancillary Service payments~~ in the previous Financial Year is greater than or less than System Management's expenditure for that Financial Year, the current year's budget must take this into account by decreasing the budgeted revenue by the amount of the surplus or adding to the budgeted revenue the amount of any shortfall, as the case may be.

2.23.12. The Economic Regulation Authority must take the following into account when determining the Allowable Revenue of System Management:

...

(b) the Allowable Revenue must include only costs which would be incurred by a prudent provider of the services described in clause 2.23.1, acting efficiently, in accordance with good electricity industry practice, seeking to achieve the lowest practicably sustainable cost of delivering the services described in clause 2.23.1 in accordance with these Market Rules, while effectively promoting the Wholesale Market Objectives; and

(c) where possible, the Economic Regulation Authority should benchmark the Allowable Revenue against the costs of providing similar services in other jurisdictions; and

~~(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:

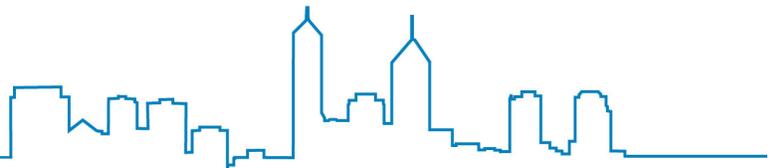
 - ~~1. the margin the Electricity Generation Corporation could reasonably have been expected to earn on energy sales forgone due to the supply of Spinning Reserve during Off Peak Trading Intervals;~~
 - ~~2. the loss in efficiency of the Electricity Generation Corporation Registered Facilities that System 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 Ancillary Services, but does not take into account the costs for providing Dispatch Support Ancillary Services.~~
- ~~(e) the determination of the Allowable Revenue of Ancillary Service provision must take into account Ancillary Service Contracts that System Management has entered into.~~

3.11.11. By 1 June each year, System Management must submit to the IMO a report containing information on:

...

- (b) the total cost of each of the categories of Ancillary Services provided, including Ancillary Services provided under Ancillary Service Contracts, in the preceding year; and
- (c) the Ancillary Service Requirements for the coming year and the Ancillary Services plan to meet those requirements; and
- ~~(d) the budget approved in accordance with clause 2.23 for providing Ancillary Services for the coming year.~~

3.11.14 System Management must document in the Power System Operating Procedure the procedure to be followed, and must follow that documented Market Procedure, when:



...

- (a) determining Ancillary Service Requirements; and
- (b) entering into Ancillary Services Contracts, including the process for conducting competitive tender processes utilised for the awarding of Ancillary Services Contracts; and
- (c) ~~preparing budget proposals for providing Ancillary Services.~~

3.13.1. The total payments by the IMO on behalf of System Management for Ancillary Services in accordance with Chapter 9 comprise:

...

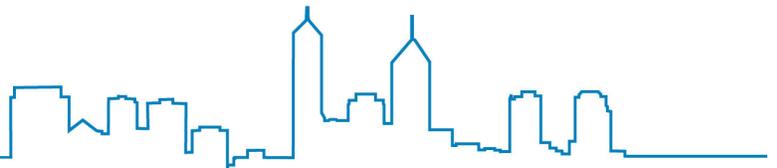
- (c) Cost_LRD, the monthly amount for Load Rejection Reserve and System Restart, determined in accordance with ~~System Management's budget~~ the process described in clause 3.13.3A; 2.23, and Dispatch Support service determined in accordance with clause 3.11.8B.

3.13.3. The parameters Margin_Peak and Margin_Off-Peak to be used in the settlement calculation described in clause 9.9.2 are:

- (a) where the Economic Regulation Authority has not completed its first assessment ~~of the efficient costs of System Management~~ in accordance with clause ~~3.13.3A2.23.3~~ 3.13.3A2.23.3:
 - i. 15-% for Margin_Peak; and
 - ii. 12% for Margin_Off-Peak; and
- (b) determined by the Economic Regulation Authority, where the Economic Regulation Authority has completed its first assessment ~~of the efficient costs of System Management~~ in accordance with clause ~~3.13.3A2.23.3~~ 3.13.3A2.23.3.

3.13.3A For each Review Period, by 31 March of the year in which the Review Period commences, the Economic Regulation Authority must determine values for the parameters Margin Peak, Margin Off-Peak and Cost LR in accordance with the following:

- (a) by 30 November of the year prior to the start of the Review Period, the IMO must submit a proposal for the Review Period to the Economic Regulation Authority:
 - i. for the reserve availability payment margin applying for Peak Trading Intervals, Margin Peak, the IMO 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. for the reserve availability payment margin applying for Off-Peak Trading Intervals, Margin Off-Peak, the IMO 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;

(b) by 30 November of the year prior to the start of the Review Period, System Management must submit a proposal for the Cost LR parameter for the Review Period to the Economic Regulation Authority. Cost LR must cover the costs for providing the Load Rejection Reserve and System Restart Ancillary Services and Dispatch Support Ancillary Services except those provided through clause 3.11.8B.

(c) the Economic Regulation Authority must undertake a public consultation process, which must include publishing an issues paper and issuing an invitation for public submissions.

3.22.1. The IMO must provide the following information to the Settlement System for each Trading Month:

...

(c) Margin_Peak as described in clause 3.13.3A-2.23.12(d)(i);

(d) Margin_Off-Peak as described in clause 3.13.3A-2.23.12(d)(ii);

...

(g) Cost_LRD as the sum of:

i Cost_LR (as described in clause 3.13.3A) divided by 12 as a monthly amount^{1(e)}; and

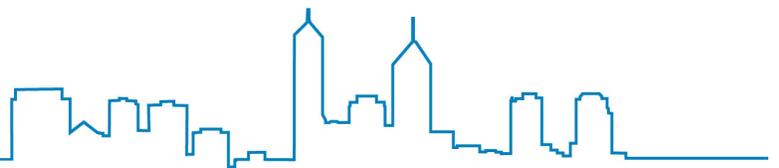
ii the monthly amount for Dispatch Support service as advised in accordance with clause 3.22.3(b); and

...

5. ABOUT RULE CHANGE PROPOSALS

Market Rule 2.5.1 of the Market Rules provides that any person (including the IMO) may make a Rule Change Proposal by completing a Rule Change Proposal Form and submit this to the 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.

