

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, lattice-structured power transmission tower stands prominently. The overall scene is set against a clear sky.

Independent Market Operator

Rule Change Notice
Title: Cost_LR

Ref: RC_2010_33

Standard Rule Change Process

Date: 20 December 2010

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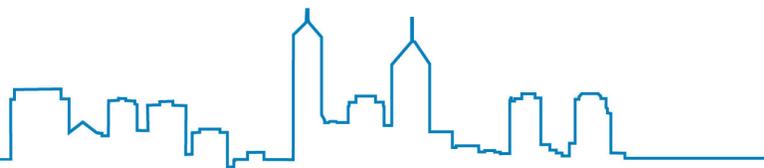
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Independent Market Operator

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1. THE RULE CHANGE PROPOSAL

1.1. The Submission

On 17 December 2010 Verve Energy submitted a Rule Change Proposal regarding amendments to clauses 9.9.1, 9.11.1 and new clause 9.9.3A of the Wholesale Electricity Market Rules (Market Rules).

This Rule Change Notice is published according to clause 2.5.7 of the Market Rules, which requires the Independent Market Operator (IMO) to publish a notice within 7 Business Days of receiving a Rule Change Proposal.

1.1.1 Submission details

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Organisation:	Electricity Generation Corporation
Address:	15-17 William St Perth WA 6000
Date submitted:	17 December 2010
Urgency:	Standard Rule Change Process
Change Proposal title:	Cost LR
Market Rules affected:	9.9.1, 9.11.1 and 9.9.3A (new)

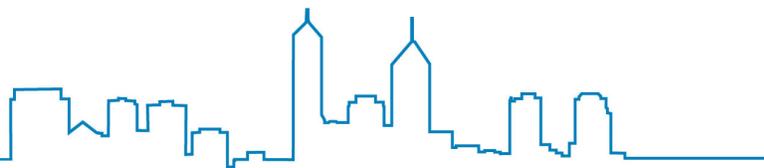
1.2. Details of the Proposal

Background

Verve Energy notes in its Rule Change Proposal that Ancillary Services are used to guarantee the safe, secure and reliable production of electricity on the South West interconnected system (SWIS) by ensuring the system can adequately respond to real time changes in load and generation under a range of scenarios. Ancillary Services are used to control key technical characteristics of the power system such as frequency and voltage. In particular Ancillary Services:

- help maintain Power System Security (ability of SWIS to deliver energy within reliability standards);
- help maintain Power System Reliability (ability of the SWIS to withstand sudden disturbances including restoration in the case of blackout);
- facilitate orderly trading in electricity; and
- ensure that electricity supplies are of acceptable quality.

Ancillary Services are required to support the Wholesale Electricity market (WEM) but are not traded as part of the WEM. Verve Energy notes that System Management is required to procure



adequate quantities of these services, either from the Electricity Generation Corporation (Verve Energy) resources (the default option) or on a contestable basis from independent providers (if they provide a lower cost option to Verve's facilities).

System Management will budget the cost of procuring Ancillary Services, with budgeted costs approved by the Economic Regulation Authority. However, System Management will not fund Ancillary Services. Rather, the IMO recovers the costs of the Ancillary Services from Market Participants through the WEM settlement systems, and will use the revenue received to fund Ancillary Services provided by Verve Energy and any contracted Ancillary Service providers.

In the current market design Verve Energy is the default Ancillary Service provider. System Management is however able to contract with other suppliers for any of the Ancillary Services. The settlement system is designed on this basis:

- The total cost of an Ancillary Service is:
 - Proposed by the IMO or System Management; and
 - Determined by the Economic Regulation Authority (ERA) (the ERA could approve the proposal or it could amend the total cost based on its own processes).
- Verve Energy compensation is then determined as the balance from the total after deducting the total payment to other suppliers of Ancillary Services.

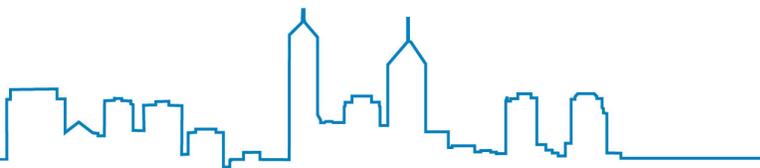
In the case of System Restart, the total is proposed by System Management once every three years for the ERA to determine, though there is a provision for System Management to propose a revised total amount for years 2 and 3 of the 3-year review period. These revised totals are also subject to determination by the ERA.

Issue

Verve Energy notes that under the current settlement rules any third party suppliers for System Restart will be paid as set out in their contracts. These payments will then be deducted from the total determined by the ERA. In the event that, for whatever reason, the ERA sets the System Restart cost to be zero, this will currently give rise to a negative amount to be paid to Verve Energy. Effectively, that will mean that Verve Energy will be charged - actually paying the third party suppliers to supply the System Restart service. On top of making this payment Verve Energy will also be required to provide any further System Restart service in addition to the third party suppliers, as required by System Management under clause 3.11.7A, with no compensation.

Proposal

Verve Energy proposes to amend the settlement equations to remove the anomaly of Verve Energy paying third party suppliers for System Restart when the benefit goes to the market as a whole.



1.3. The Proposal and the Wholesale Market Objectives

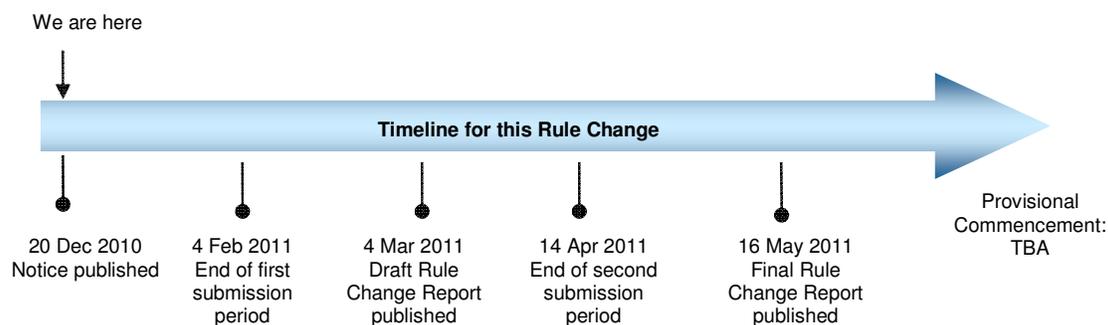
Verve Energy submits that the proposed amendments address a fundamental value that underwrites the market and thus the Market Objectives. Verve Energy proposes that it is inequitable for a Market Participant to be required to pay for services provided by third party Market Participants when the benefit is received by the market as a whole. Verve Energy considers that in correcting this inequity the rule change should be seen as supporting the market and consistent with the Market Objectives.

2. WHETHER THE PROPOSAL WILL BE PROGRESSED FURTHER

The IMO has decided to proceed with this proposal on the basis that Market Participants should be given an opportunity to provide submissions as part of the rule change process.

This Rule Change Proposal will be processed 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 Rule Change Notice. Submissions must be delivered to the IMO by 5:00pm on **Friday, 4 February 2011**.

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/rule-changes>.

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

Independent Market Operator
Attn: General Manager, Development
PO Box 7096
Cloisters Square, Perth, WA 6850
Fax: (08) 9254 4399

4. PROPOSED AMENDING RULES

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

A new term $ASP_Balance_Payment(i,m)$ has been introduced replacing the existing term $ASP_Payment(i,m)$ in the definition for Electricity Generation Corporation AS Provider Payment(p,m). Note that $ASP_Payment(i,m)$ continues to be used in the formula. The new term $ASP_Balance_Payment(i,m)$ is determined in a new clause 9.9.3A

9.9.1. The Ancillary Service settlement amount for Market Participant p for Trading Month m is:

$$\begin{aligned} ASSA(p,m) = & \text{Electricity Generation Corporation AS Provider Payment}(p,m) \\ & + d(p,i) \times ASP_Payment(i,m) \\ & - \text{Load_Following_Share}(p,m) \\ & \times (\text{Capacity_LF}(m) + \text{Availability_Cost_LF}(m)) \\ & - \text{Reserve_Cost_Share}(p,m) \\ & - \text{Consumption_Share}(p,m) \times \text{Cost_LRD}(m) \end{aligned}$$

Where

the Electricity Generation Corporation AS Provider Payment(p,m) =
0 if Market Participant p is not the Electricity Generation Corporation and
(Availability_Cost_R(m) + Availability_Cost_LF(m) + Cost_LRD(m))
- Sum($i \in I$, $ASP_Balance_Payment(i,m)$) otherwise.

$d(p,i)$ is 1 if ASP i corresponds to Market Participant p and zero otherwise;

$ASP_Payment(i,m)$ is determined in accordance with clause 9.9.3;

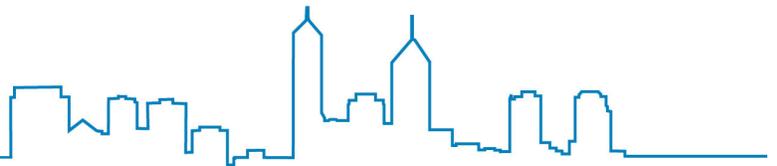
$ASP_Balance_Payment(i,m)$ is determined in accordance with clause 9.9.3A

...

A new clause 9.9.3A is added to define $ASP_Balance_Payment(i,m)$ now used in clause 9.9.1. The new clause parallels the existing clause 9.9.3 except for subclause (c) for Load Rejection Reserve Service and System Restart. In this new subclause payment to Electricity Generation corporation is made non-negative.

9.9.3A. The value of $ASP_Balance_Payment(i,m)$ for Ancillary Service Provider i in Trading Month m for determining the Ancillary Service settlement amount for the Electricity Generation Corporation is the sum of:

(a) the sum over all Ancillary Service Contracts for Spinning Reserve of $ASP_SRPayment(i,m)$, the payment under that contract;



- (b) the sum over all Ancillary Service Contracts for Load Following of ASP_LFPayment(i,m), the payment under that contract;
- (c) for Ancillary Service Contracts for Load Rejection Reserve Service and System Restart:
Max(0, Cost_LR(m) – sum(iel, ASP_LRPayment(i,m)) – sum(iel, ASP_BSPayment(i,m))); and
- (d) the sum over all Ancillary Service Contracts for Dispatch Support of ASP_DSPayment(i,m), the payment under that contract

Where

each of the terms ASP_SRPayment(i,m), ASP_LFPayment(i,m), ASP_LRPayment(i,m), ASP_BSPayment(i,m) and ASP_DSPayment(i,m) is determined in accordance with clause 9.9.4 and

Cost_LR(m) is the total Load Rejection Reserve Service and System Restart services payment costs for Trading Month m as specified by the IMO under clause 3.22.1(g)(i)

Having made the Load Rejection Reserve Service and System Restart payment to Electricity Generation Corporation non-negative, if the total amount determined by the Economic Regulation Authority is zero, the IMO will be short after paying the third party suppliers. The amendment to clause 9.11.1 is to recover this payment to third party suppliers from Market Customers through the Reconciliation Settlement Amount. Market Customers are not charged a second time in this process as with Cost_LR having a zero amount for Load Rejection Reserve Service and System Restart these services are not charged in clause 9.9.1.

9.11.1. The Reconciliation Settlement amount for Market Participant p for Trading Month m is:

$$RSA(p,m) = (-1) \times Consumption_Share(p,m) \times \text{Sum}(q \in P, d \in D, t \in T, BSA(q,d,t) + NCC(q,m) + ASSA(q,m))$$

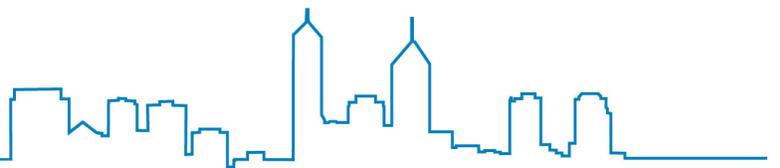
Where

ASSA(q,m) is the Ancillary Service settlement amount for Market Participant q for Trading Month m;

...

5. ABOUT RULE CHANGE PROPOSALS

Any person (including the IMO) may make a Rule Change Proposal by completing a Rule Change Proposal Form and submitting this to the IMO (Clause 2.5.1 of the Market Rules).



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.