



Independent Market Operator

Final Rule Change Report

**Title: Use of forecasts in SRC
assessment**

Ref: RC_2010_35

Date: 16 December 2010

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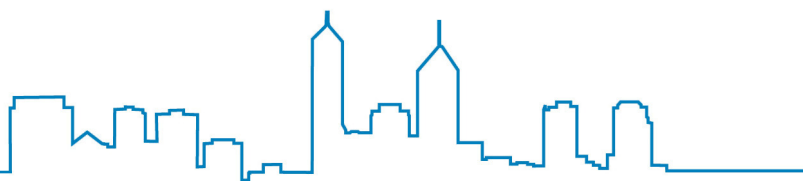
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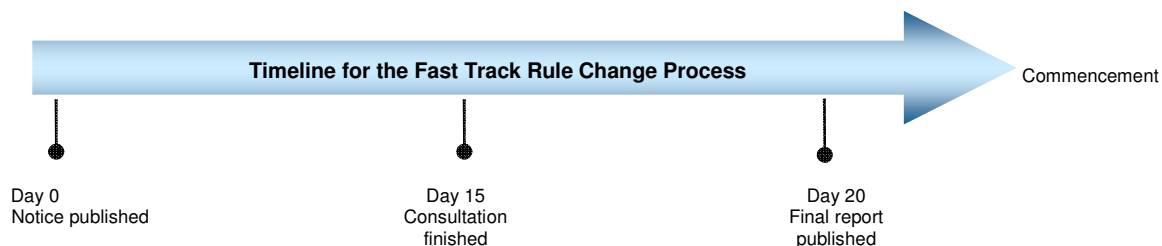
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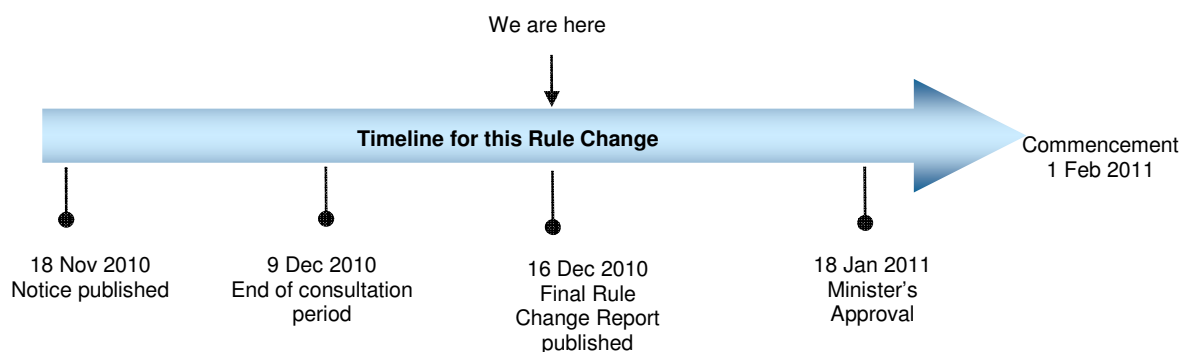
1. INTRODUCTION

On 17 November 2010 the Independent Market Operator (IMO) initiated a Rule Change Proposal regarding amendments to clause 4.24.1 and the Glossary of the Wholesale Electricity Market Rules (Market Rules).

This proposal was processed using the Fast Track Rule Change Process, described in section 2.6 of the Market Rules. The fast track process adheres to the following timelines:



The key dates in processing this Rule Change Proposal are:



The IMO's final decision is to implement the Rule Change Proposal in the form outlined in section 6.2 of this report. The decision is based on the IMO's assessment of the Rule Change Proposal against the:

- Wholesale Market Objectives;
- practicality and cost of implementing the proposal; and
- outcomes from the public consultation period.

The amendments to the Market Rules made as a result of this Rule Change Proposal will commence at 8.00am on 1 February 2011.

All documents related to this Rule Change Proposal can be found on the IMO website: http://www.imowa.com.au/RC_2010_35

2. THE RULE CHANGE PROPOSAL

2.1 Submission Details

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Date submitted:	17 November 2010
Urgency:	High
Change Proposal title:	Use of forecasts in SRC assessment
Market Rules affected:	4.24.1 and the Glossary

2.2 Summary details of the Proposal

The IMO noted in its proposal that it must seek to acquire supplementary reserve capacity (SRC) if it considers, at any time after the Reserve Capacity Auction has occurred or has been cancelled, that inadequate Reserve Capacity will be available in the South West interconnected system (SWIS).

In making its determination whether SRC is required, the IMO must make reference to clause 4.5.9 of the Market Rules, which outlines the Planning Criterion that is used to set the Reserve Capacity Target for each year in the Long Term PASA study horizon. The Long Term PASA (LT PASA) is defined as the ten year period commencing on 1 October of Year 2 of a Reserve Capacity Cycle. In addition to the LT PASA, the IMO also provides forecasts in the Statement of Opportunities for the Capacity Year commencing on 1 October of Year 1 of each Reserve Capacity Cycle.

The IMO contended in its proposal that the Market Rules currently limit the IMO's assessment of SRC requirements to those that are developed for the LT PASA study. As the LT PASA Horizon does not commence until 1 October of Year 2 of a Reserve Capacity Cycle, the IMO is unable to use the demand forecasts from the most recent Statement of Opportunities. The IMO contended that it would be more practical and desirable to perform the assessment of the SRC requirements with the most recently available demand forecasts.

The IMO proposed to amend clause 4.24.1 of the Market Rules to allow the IMO to use the most recently published forecasts in its determination of SRC requirements, removing the current limitation. In addition, the IMO proposed to amend the Glossary (Chapter 11) to:

- change the two instances of "Planning Criteria" to "Planning Criterion" for consistency within the Market Rules; and
- amend the Long Term PASA Planning Horizon to begin from 1 October of Year 1 of a Reserve Capacity Cycle.

2.3 The Proposal and the Wholesale Market Objectives

In its proposal, the IMO submitted that using the most recent forecasts when assessing the requirements for SRC would better address Market Objective (a) by improving the IMO's determination of any SRC requirement for the market. This will result in:

- more economically efficient outcomes, as a call for SRC would only be issued when the market actually needs additional capacity; and
- improvements in system security and reliability, by ensuring that the IMO is able to identify that a shortfall in capacity is going to occur and has sufficient time to procure any necessary additional capacity.

Furthermore, the IMO considered the proposed change to the start date for the LT Planning Horizon would better address Market Objective (a) by improving the availability of information for Market Participants and therefore promoting greater economic efficiency.

The IMO considers that the proposed changes which change the instances of "Planning Criteria" to "Planning Criterion" are consistent with the operation of the Wholesale Market Objectives.

2.4 The Amending Rules Proposed by the IMO

The amendments to the Market Rules originally proposed by the IMO are presented in Appendix 2 of this report.

2.5 The IMO's Initial Assessment of the Proposal

The IMO decided to process the Rule Change Proposal using the Fast Track Rule Change Process, described in clause 2.6 of the Market Rules, on the basis that it satisfied the criteria in clauses 2.5.9(a) and 2.5.9 (b) of the Market Rules.

Clause 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 contended that not allowing it to use the most recently published forecasts in its determination of SRC requirements was a manifest error. As such, the proposed amendments fulfilled clause 2.5.9(b), in that they were required to correct a manifest error, and therefore could be fast-tracked.

Additionally, the IMO considered that the remaining proposed changes consisted of minor amendments which would improve the determination of the requirement for SRC and the consistency of the Market Rules. The IMO noted that there would be no operational impact on the IMO or Market Participants associated with starting the Long Term Planning Horizon from 1 October of Year 1. Additionally, the proposed change to reference “Planning Criterion” does not seek to amend the operation of the Market Rules. As such, the IMO considered that the proposal fulfilled clause 2.5.9(a), in that it was of a minor nature, and therefore could be fast-tracked.

3. CONSULTATION

An invitation for all Rule Participants to contact the IMO, should they wish to be consulted on this Rule Change Proposal, was published on the IMO website on 18 November 2010, together with the Rule Change Notice.

The consultation period for this Rule Change Proposal was between 19 November 2010 and 9 December 2010. Interested stakeholders were requested to inform the IMO if they wished to be consulted on this Rule Change Proposal by 25 November 2010.

3.1 Submissions received

The IMO received a formal request to be consulted on the Rule Change Proposal from Perth Energy. The IMO also received two out-of-session submissions prior to the closure of the consultation period from Landfill Gas & Power (LGP) and Synergy. Further details of these submissions are summarised below, with full text available on the IMO’s website.

Perth Energy’s submission and the out-of-session submissions from LGP and Synergy all supported the IMO’s proposed amendments to the Market Rules. Specifically:

- Perth Energy notes that it would be in the best interests of Market Participants that all relevant information, including the most up to date Capacity Requirements in Year 1 of the Reserve Capacity Cycle, be considered by the IMO when assessing whether SRC is required; and
- LGP notes that the Rule Change Proposal improves efficiency by basing decisions on the most recent information.

Perth Energy, LGP and Synergy all agree with the IMO’s assessment that the Rule Change Proposal will allow the Market Rules to better address Wholesale Market Objective (a).

3.2 Additional Amendments to the Market Rules

The IMO has made one further minor typographical amendment to the proposal to ensure the consistency of terms within the Market Rules. The additional amendments made by the IMO are presented in Appendix 3 of this report.

4. THE IMO'S ASSESSMENT

In preparing this Final Rule Change Report, the IMO must assess the Rule Change Proposal in light of clauses 2.4.2 and 2.4.3 of the Market Rules.

Clause 2.4.2 outlines that 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”.

Additionally, clause 2.4.3 states, when deciding whether to make Amending Rules, the IMO must have regard to the following:

- any applicable policy direction from the Minister regarding the development of the market;
- the practicality and cost of implementing the proposal;
- the views expressed in submissions and by the MAC; and
- any technical studies that the IMO considers necessary to assist in assessing the Rule Change Proposal.

The IMO notes that there has not been any applicable policy direction from the Minister, nor have there been any technical studies commissioned in respect of this Rule Change Proposal.

This IMO's assessment is outlined in the following sections.

4.1 Wholesale Market Objectives

The IMO considers that the Market Rules as a whole, if amended, will better objective (a) of the Wholesale Market Objectives.

Wholesale Market Objective	Consistent with objective
<ul style="list-style-type: none">• to promote the economically efficient, safe and reliable production and supply of electricity and electricity related services in the South West interconnected system	Yes
<ul style="list-style-type: none">• to encourage competition among generators and retailers in the South West interconnected system, including by facilitating efficient entry of new competitors	Yes
<ul style="list-style-type: none">• 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	Yes
<ul style="list-style-type: none">• to minimise the long-term cost of electricity supplied to customers from the South West interconnected system	Yes
<ul style="list-style-type: none">• to encourage the taking of measures to manage the amount of electricity used and when it is used	Yes

Further, the IMO considers that the Market Rules, if amended, would not only be consistent with the Wholesale Market Objectives but also allow the Market Rules to better address Wholesale Market Objective (a):

Use of forecast information

Impact	Market Objectives
Allow the Market Rules to better address the objective.	a
Consistent with objective.	b, c, d, e
Inconsistent with objective.	

The proposed changes will allow the Market Rules to better address Market Objective (a) by improving the IMO’s determination of any SRC requirements for the market. This will result in:

- more economically efficient outcomes, as a call for SRC would only be issued when the market actually needs additional capacity; and
- improvements in system security and reliability, by ensuring that the IMO is able to identify that a shortfall in capacity is going to occur and has sufficient time to procure any necessary additional capacity.

Start of the Long Term Planning Horizon

Impact	Market Objectives
Allow the Market Rules to better address the objective.	a
Consistent with objective.	b, c, d, e
Inconsistent with objective.	

The proposed changes will allow the Market Rules to better address Market Objective (a) by improving the availability of information for Market Participants and therefore promoting greater economic efficiency.

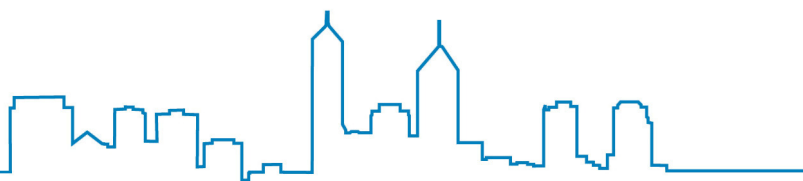
Planning Criterion

In its proposal, the IMO contends that the proposed changes which change the instances of “Planning Criteria” to “Planning Criterion” are consistent with the operation of the Wholesale Market Objectives.

4.2 Practicality and cost of implementation

The proposed changes do not require any change to the Wholesale Electricity Market Systems operated by the IMO or any of the systems operated by System Management.

There have been no additional costs identified with the implementation of this Rule Change Proposal.



4.3 Views expressed in submissions

The IMO received one submission from Perth Energy and two out-of-sessions submissions from LGP and Synergy for this rule change, with all submissions supporting the proposed changes.

4.4 Views of the Market Advisory Committee

At the 13 October 2010 MAC meeting, the IMO noted in its Rule Change Overview that it would look to propose a Fast Track Rule Change proposal to amend the Market Rules to use the most up to date forecasts for determining SRC. The MAC noted the Rule Change Overview.

5. THE IMO'S FINAL DECISION

The IMO's final decision is to accept the proposed changes to clause 4.24.1 and the Glossary of the Market Rules as proposed originally and amended in section 3.2.

5.1 Reasons for the decision

The IMO has made its decision on the basis that the Amending Rules:

- Will allow the Market Rules to better address Wholesale Market Objective (a),
- will improve the integrity of the Market Rules; and
- can be easily implemented at no additional cost to the Market.

Additional detail outlining the analysis behind the IMO's reasons is outlined in section 4 of this Final Rule Change Report.

6. AMENDING RULES

6.1 Commencement

The amendments to the Market Rules resulting from this Rule Change Proposal will commence at **8:00am on 1 February 2011**.

6.2 Amending Rules

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

- 4.24.1. If, at any time after the day which is six months before the first Capacity Year the IMO considers that, in its opinion, inadequate Reserve Capacity will be available in the SWIS to satisfy maintain Power System Security and Power System Reliability, using the most recent published forecasts and the methodology ~~the requirements described outlined~~ in clauses 4.5.9(a) and (b), and the Reserve Capacity Auction intended to secure Capacity Credits for that time has already occurred or been cancelled, then it must:

- (a) determine the expected start and end dates for the period of the shortfall;
- (b) determine the expected amount of the shortfall; and
- (c) seek to acquire supplementary capacity in accordance with clause 4.24.2.

Chapter 11:

Long Term PASA Study Horizon: The ten year period commencing on 1 October of Year 2 1 of a Reserve Capacity Cycle.

Planning ~~Criteria~~ Criterion: Has the meaning given in clause 4.5.9.

Reserve Capacity Target: In respect of a Capacity Year, the IMO's estimate of the total amount of generation or Demand Side Management capacity required in the SWIS to satisfy the Planning ~~Criteria~~ Criterion for that Capacity Year determined in accordance with clause 4.5.10(b).

APPENDIX 1: FULL DETAILS OF THE PROPOSAL

Background

In its Rule Change Proposal, the IMO notes that it must seek to acquire supplementary reserve capacity (SRC) if it considers, at any time after the Reserve Capacity Auction has occurred or has been cancelled, that inadequate Reserve Capacity will be available in the South West interconnected system (SWIS).

In making its determination that SRC is required, the IMO must make reference to clause 4.5.9 of the Market Rules, which outlines the Planning Criterion that is used to set the Reserve Capacity Target for each year in the Long Term PASA Study Horizon. The Long Term PASA Study Horizon is defined in the Market Rules as the ten year period commencing on 1 October of Year 2 of a Reserve Capacity Cycle.

The IMO notes that it has historically provided forecasts in the Statement of Opportunities for the Capacity Year commencing on 1 October of Year 1 of each Reserve Capacity Cycle, in addition to the ten year Long Term PASA Study Horizon period. Although this has not been a requirement of the Market Rules, the IMO has considered that this additional forecast provides beneficial information for Market Participants.

Issue

The IMO contends that the Market Rules currently limit the IMO's assessment of SRC requirements to those forecasts that are developed for the Long Term PASA Study Horizon. As the Long Term PASA Study Horizon does not commence until 1 October of Year 2 of a Reserve Capacity Cycle, the IMO is thus unable to use the demand forecasts from the most recent Statement of Opportunities. The IMO considers that it would be more practical and desirable to perform the assessment of SRC requirements with the most recently available demand forecasts, that is those available from 1 October of Year 1 of each Reserve Capacity Cycle.

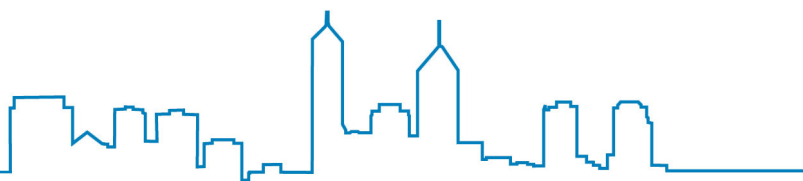
The IMO also considers that the Long Term PASA Planning Horizon should begin from 1 October of Year 1 of a Reserve Capacity Cycle. The IMO considers that this will improve the information available to Market Participants.

The IMO also notes in its proposal that the Market Rules currently refer to the "Planning Criterion", but this is incorrectly defined in the Glossary as the "Planning Criteria". The Glossary needs to be amended for consistency.

Proposal

The IMO proposes to amend clause 4.24.1 of the Market Rules to allow the IMO to use the most recent published forecasts in its determination of SRC requirements, removing the current limitation.

In addition, the IMO proposes to amend the Glossary (Chapter 11) to:



- change the two instances of “Planning Criteria to “Planning Criterion” for consistency with the remaining references in the Market Rules; and
- amend the Long Term PASA Planning Horizon to begin from 1 October of Year 1 (currently Year 2) of a Reserve Capacity Cycle.

The IMO highlighted the current limitation in the Market Rules to the MAC at the October 2010 meeting, and indicated its intent to remove the limitation through a Fast-Track Rule Change Proposal. The MAC generally supported this proposal.

APPENDIX 2: PROPOSED AMENDING RULES IN THE RULE CHANGE PROPOSAL

The IMO proposed the following amendments to the Market Rules in its Rule Change Proposal. These changes are as follows (~~deleted text~~, added text):

- 4.24.1. If, at any time after the day which is six months before the first Capacity Year the IMO considers that, in its opinion, inadequate Reserve Capacity will be available in the SWIS to ~~satisfy~~ maintain Power System Security and Reliability, using the most recent published forecasts and the methodology ~~the requirements described~~ outlined in clauses 4.5.9(a) and (b), and the Reserve Capacity Auction intended to secure Capacity Credits for that time has already occurred or been cancelled, then it must:
- (a) determine the expected start and end dates for the period of the shortfall;
 - (b) determine the expected amount of the shortfall; and
 - (c) seek to acquire supplementary capacity in accordance with clause 4.24.2.

Chapter 11:

Long Term PASA Study Horizon: The ten year period commencing on 1 October of Year ~~2~~ 1 of a Reserve Capacity Cycle.

Planning ~~Criteria~~ Criterion: Has the meaning given in clause 4.5.9.

Reserve Capacity Target: In respect of a Capacity Year, the IMO's estimate of the total amount of generation or Demand Side Management capacity required in the SWIS to satisfy the Planning ~~Criteria~~ Criterion for that Capacity Year determined in accordance with clause 4.5.10(b).

APPENDIX 3: ADDITIONAL AMMENDMENTS MADE BY THE IMO FOLLOWING THE CONSULTATION PERIOD

The IMO made an amendment to the proposed Amending Rules following the consultation period. These changes are as follows (~~deleted text~~, added text):

The proposed amendment to clause 4.24.1 is a typographical change to ensure a consistency of terms used within the Market Rules.

- 4.24.1. If, at any time after the day which is six months before the first Capacity Year the IMO considers that, in its opinion, inadequate Reserve Capacity will be available in the SWIS to maintain Power System Security and Power System Reliability, using the most recent published forecasts and the methodology the requirements described outlined in clauses 4.5.9(a) and (b), and the Reserve Capacity Auction intended to secure Capacity Credits for that time has already occurred or been cancelled, then it must:
- (a) determine the expected start and end dates for the period of the shortfall;
 - (b) determine the expected amount of the shortfall; and
 - (c) seek to acquire supplementary capacity in accordance with clause 4.24.2.

