

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

Final Rule Change Report

**Title: Heads of Power for MRCP
Market Procedure**

Ref: RC_2011_13

Date: 22 November 2011

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EXECUTIVE SUMMARY

Proposed Amendments

Clause 4.16.3 of the Market Rules requires the IMO, Market Generators and Market Customers to follow the Maximum Reserve Capacity Price (MRCP) Market Procedure. The IMO's Rule Change Proposal seeks to amend clause 4.16.3 to ensure that Western Power is also required to follow this Market Procedure.

Consultation

- The IMO signalled its intention to submit a Rule Change Proposal to make this correction in the Procedure Change Report for the Procedure Change Proposal: 5 Yearly Review of the Methodology and Process for Determining the Maximum Reserve Capacity Price (PC_2011_06), published on 21 October 2011.
- The Rule Change Proposal was formally submitted on 24 October 2011 and progressed by the IMO using the Fast Track Rule Change Process.
- The IMO received requests from Perth Energy and System Management to be consulted on the Rule Change Proposal. The IMO decided to undertake consultation on the proposal through written submissions. System Management chose not to provide a submission, while Perth Energy provided an out of session submission. Out of session submissions were also received from Landfill Gas and Power (LGP) and Synergy. All submissions received supported the Rule Change Proposal.

Assessment against Wholesale Market Objectives

The IMO considers that the proposed amendments correct a manifest error in the Market Rules and are consistent with the Wholesale Market Objectives.

Practicality and Cost of Implementation

The IMO considers there to be no costs or practicality issues associated with implementing the proposed changes.

The IMO's Decision

The IMO's decision is to accept the Rule Change Proposal.

Next steps

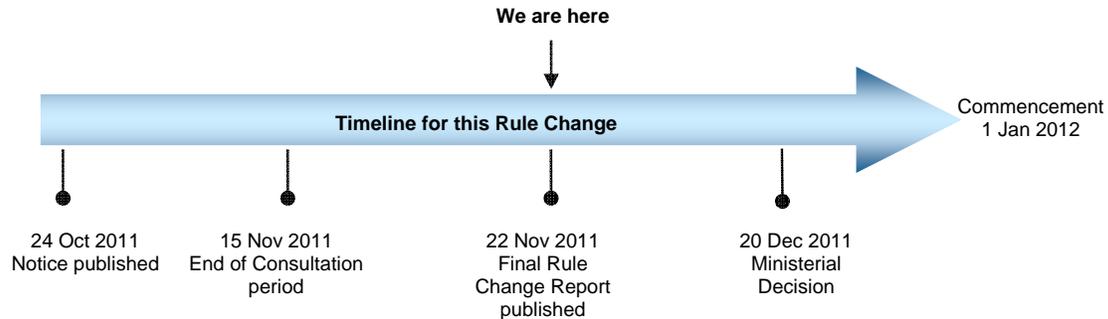
Subject to Ministerial approval, the amendments to the Market Rules resulting from this Rule Change Proposal will commence at **8:00am on 1 January 2012.**

1. INTRODUCTION

On 24 October 2011 the IMO submitted a Rule Change Proposal regarding an amendment to clause 4.16.3 of the Market Rules.

This proposal was processed using the Fast Track Rule Change Process, described in section 2.6 of the Wholesale Electricity Market Rules (Market Rules).

The key dates in processing this Rule Change Proposal are:



2. PROPOSED AMENDMENTS

2.1 *The Rule Change Proposal*

The IMO noted in its proposal that clause 4.16.3 of the Market Rules requires that both the IMO and Market Participants must follow the MRCP Market Procedure. A Market Participant is defined as a Market Generator or a Market Customer in the Market Rules. The current MRCP Market Procedure includes a number of obligations on Western Power which are necessary for the IMO to be able to determine the MRCP. The IMO proposed to amend clause 4.16.3 to apply to the IMO and Rule Participants (which is defined to include Western Power) rather than to the IMO and Market Participants.

The IMO noted this proposal enforces the recommendation of the MRCP Advisory Group that *'Western Power should be requested to provide all transmission costing estimates for use in the determination of the Maximum Reserve Capacity Price'* as detailed in its ¹February 2008 discussion paper.

The IMO signalled its intention to submit a Rule Change Proposal to make this correction in the Procedure Change Report for the Procedure Change Proposal for Maximum Reserve Capacity Price ²(PC_2011_06). The amended Market Procedure includes Western Power in the

¹ A copy of the MRCP Advisory Group's February 2008 discussion paper is available on the following web page: www.imowa.com.au/PC_2008_06

² A copy of the IMO's Procedure Change Report is available on the following webpage: www.imowa.com.au/PC_2011_06

obligations, in anticipation of the amending Market Rule. The IMO noted that until the proposed amending rule commences, the obligations in the Market Procedure on Western Power are potentially unenforceable.

The full details of the Rule Change Proposal are contained in Appendix 1 of this report.

2.2 The IMO's Initial Assessment of the Proposal

The IMO decided to progress the Rule Change Proposal on the basis that Rule Participants should be given the opportunity to provide submissions as part of the rule change process.

The IMO decided to process the Rule Change Proposal using the Fast Track Rule Change Process, on the basis that it satisfies the criterion in clause 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 considered that the proposed amendments to the Market Rules are required to correct a manifest error by which the heads of power for the Market Procedure does not align with the requirements specified in the Market Procedure (which directly reflect the original advice of the first MRCP Advisory Group).

The recommendation of the MRCP Advisory Group as detailed in its February 2008 Discussion Paper was that "*Western Power should be requested to provide all transmission costing estimates for use in the determination of the Maximum Reserve Capacity Price*". Subsequently, the IMO considers that the intent of the amendments recommended by the Advisory Group was for clause 4.16.3(a) to encompass Rule Participants, thereby allowing for Western Power to be requested to provide transmission costing estimates (as agreed by the Advisory Group) and required to provide this information under the Market Procedure. That is the obligations as currently outlined in the Market Procedure should be reflected in the Market Rules to ensure consistency with the Advisory Groups recommendations.

3. CONSULTATION

3.1 Market Advisory Committee

The Market Advisory Committee did not meet to discuss the proposed amendments.

3.2 Consultation period

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 24 October 2011, together with the Rule Change Notice.

The consultation period for the Rule Change Proposal was between 25 October 2011 and 15 November 2011. Interested stakeholders were requested to inform the IMO if they wished to be consulted on the Rule Change Proposal by 1 November 2011.

The IMO received requests from Perth Energy and System Management to be consulted on the Rule Change Proposal. Due to the simplicity of the proposal the IMO decided to undertake consultation through written submissions. System Management chose not to provide a submission, while Perth Energy provided an out of session submission (refer to the following section).

3.3 Out of Session Submissions

The IMO received out of session submissions from Landfill Gas & Power (LGP), Perth Energy and Synergy. A full copy of the submissions is available on the IMO website.

All out of session submissions supported the Rule Change Proposal and agreed that the amendments correct a manifest error in the Market Rules. Perth Energy considered that by correcting the manifest error Wholesale Market Objective (a) would be marginally better achieved, while LGP and Synergy considered the proposed amendments to be consistent with the Wholesale Market Objectives.

No issues relating to the proposed amendments were raised in the submissions received by the IMO.

3.4 Public Forums and Workshops

No public forums or workshops were held in relation to this Rule Change Proposal.

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. The MAC was not consulted due to the timelines associated with the Fast Track Rule Change Process. A summary of the views expressed in out of session submissions can be found in section 3.3.

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

4.1 *IMO Analysis*

The IMO considers the proposed Amending Rule will improve the integrity of the Market Rules as it will align the current Market Rules with the Maximum Reserve Capacity Price Market Procedure. The IMO believes that Western Power who was awarded the responsibility of providing all the transmission costing estimates to be used when calculating the MRCP, should be included, through the term Rule Participant, in the heads of power for the MRCP Market Procedure.

4.2 *Wholesale Market Objectives*

The IMO considers that the Market Rules as a whole, if amended, will be consistent with the Wholesale Market Objectives.

4.4 *Practicality and cost of implementation*

Cost:

No additional costs associated with implementing the change have been identified.

Practicality:

The IMO has not identified any issues with the practicality of implementing the proposed changes.

5 THE IMO'S FINAL DECISION

The IMO's final decision is to accept the Rule Change Proposal.

5.1 *Reasons for the decision*

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

- will correct a manifest error in the Market Rules so the heads of power for the Market Procedure will align with the requirements specified in the Market Procedure;
- have the support of all the submissions received;
- are consistent with the Wholesale Market Objectives; and
- impose no additional cost on 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 January 2012**.

6.2 Amending Rules

The following clause is amended (~~deleted text~~, new text):

4.16.3 The IMO must develop a Market Procedure documenting the methodology it uses and the process it follows in determining the Maximum Reserve Capacity Price, and:

- (a) the IMO and ~~Rule Market~~ Participants must follow that documented Market Procedure when conducting any review and consultations in accordance with that Market Procedure and clause 4.16.6; and

.....

APPENDIX 1: FULL DETAILS OF THE PROPOSAL

Change Proposal No: RC_2011_13

Received date: 24 October 2011

Change requested by:

Name:	Greg Ruthven
Phone:	(08) 9254 4301
Fax:	(08) 9254 4399
Email:	greg.ruthven@imowa.com.au
Organisation:	IMO
Address:	Level 3, Governor Stirling Tower, 197 St Georges Terrace
Date submitted:	24 October 2011
Urgency:	Fast Track
Change Proposal title:	Heads of Power for MRCP Market Procedure
Market Rules affected:	Clause 4.16.3(a)

Details of the proposed Market Rule Change

1. Describe the concern with the existing Market Rules that is to be addressed by the proposed Market Rule change:

Background

Following the deliberations of the first Maximum Reserve Capacity Price (MRCP) Advisory Group³ the IMO amended the Market Rules to shift the detail around the calculation of the MRCP out of the Market Rules and into a Market Procedure.

Issue

Clause 4.16.3 of the Market Rules requires that both the IMO and Market Participants must follow the Market Procedure. A "Market Participant" is defined as a Market Generator or Market Customer. The Market Procedure includes a number of obligations on Western Power which are necessary for the IMO to be able to determine the MRCP. However because Western Power is not a Market Participant it is not required to comply with the Market Procedure.

The IMO considers that the Rules ought to have provided for the Market Procedure to apply to the IMO and Rule Participants (which is defined so as to include Western Power) rather than to Market Participants.

³ For further details of the recommendations of the Advisory Group, please see the final report available at: http://www.imowa.com.au/PC_2008_06

Proposal

The IMO considers that the use of the term 'Market Participants' rather than 'Rule Participants' is a manifest error. The IMO proposes an amendment to clause 4.16.3 of the Market Rules to delete the phrase 'Market Participants' and replace it with Rule Participants to ensure the Market Procedure applies to Western Power.

The IMO signaled its intention to progress an amendment to the Market Rules to make this correction in the Procedure Change Report for the Procedure Change Proposal for Market Reserve Capacity Price (PC_2011_06). The Procedure Change Proposal amends the obligations on Western Power, in anticipation of this rule change being put forward. However the IMO notes that until clause 4.16.3 is amended the obligations in the Market Procedure on Western Power are potentially unenforceable.

A copy of the IMO's Procedure Change Report is available on the following webpage: http://www.imowa.com.au/PC_2011_06

2. Explain the reason for the degree of urgency:

The IMO submits that this Rule Change Proposal should be fast-tracked, on the basis that it satisfies the criteria in clause 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;*
- (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 proposed amendments to the Market Rules are required to correct a manifest error by which the heads of power for the Market Procedure does not align with the requirements specified in the Market Procedure.

The recommendation of the MRCP Advisory Group as detailed in its February 2008 Discussion Paper (available on the IMO website) was that "*Western Power should be requested to provide all transmission costing estimates for use in the determination of the Maximum Reserve Capacity Price*". Accordingly, the IMO considers that the intent of the amendments recommended by the Advisory Group was for clause 4.16.3(a) to encompass Rule Participants. This would allow the IMO to require Western Power to provide transmission costing estimates (as agreed by the Advisory Group) under the Market Procedure.

The IMO notes that the proposed amendments will ensure obligations currently contained in the MRCP Market Procedure are enforceable.

3. Provide any proposed specific changes to particular Rules: (for clarity, please use the current wording of the Rules and place a ~~striketrough~~ where words are deleted and underline words added)

4.16.3 The IMO must develop a Market Procedure documenting the methodology it uses and the process it follows in determining the Maximum Reserve Capacity Price, and:

- (a) the IMO and Rule ~~Market~~ Participants must follow that documented Market Procedure when conducting any review and consultations in accordance with that Market Procedure and clause 4.16.6; and

...

4. Describe how the proposed Market Rule change would allow the Market Rules to better address the Wholesale Market Objectives:

The IMO considers that the proposed changes, which will improve the integrity of the Market Rules, are consistent with the Wholesale Market Objectives.

5. Provide any identifiable costs and benefits of the change:

Costs:

No costs associated with implementing the proposed change have been identified.

Benefits:

The proposed change will correct a manifest error in the Market Rules and ensure that Western Power is encompassed in the intention of clause 4.16.3.