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, a large wind turbine is visible, with its tower and nacelle. To the right, several high-voltage power line towers are visible, stretching into the distance. The overall scene is a mix of renewable energy and traditional power infrastructure.

Independent Market Operator

**Final Rule Change Report
Title: Treatment of Negative Balancing
Price on the Settlement of Ancillary
Services**

RC_2012_05

Fast Track Rule Change Process

Date: 18 May 2012

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EXECUTIVE SUMMARY

Proposed Amendments

This Rule Change Proposal seeks to address a manifest error in clause 9.9.2 of the Amending Rules resulting from the Rule Change Proposal: Competitive Balancing and Ancillary Services Market (RC_2011_10), whereby a previous amendment that commenced as a result of the Rule Change Proposal: Treatment of Negative MCAP on the settlement of Ancillary Services (RC_2009_21) was inadvertently omitted.

The proposed amendments reinstate the amendments from RC_2009_21.

Consultation

The proposal was discussed at the Market Advisory Committee meeting on 18 April 2012 and was subsequently submitted on 19 April 2012.

The consultation period was held between 20 April 2012 and 11 May 2012. A submission was received from Perth Energy supporting the proposal. System Management requested to be consulted but chose not to make a formal submission as it did not have any concerns.

Assessment against Wholesale Market Objectives

The proposed amendments are consistent with the Wholesale Market Objectives and better achieve Market Objective (a).

Practicality and Cost of Implementation

The IMO has assessed that some costs will be incurred in implementing IT changes arising from the proposed amendments. The IMO does not anticipate any issues with the practicality of implementing the amendments.

The IMO's Decision

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

Next steps

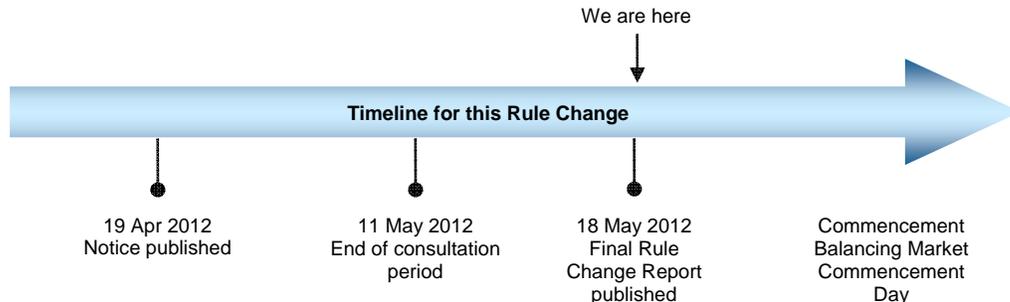
The Amending Rules will commence at 8.00am on the Balancing Market Commencement Day.

1. RULE CHANGE PROCESS AND TIMETABLE

On 18 April 2012, Verve Energy submitted a Rule Change Proposal regarding amendments to clause 9.9.2 of the Amending Rules resulting from the Rule Change Proposal: Competitive Balancing and Load Following Market (RC_2011_10)¹.

This proposal is being processed using the Fast-Track Rule Change Process, described in section 2.6 of the Market Rules.

The key dates in processing this Rule Change Proposal are:



The IMO's final decision is to accept the Rule Change Proposal in its proposed form. The detailed reasons for the IMO's decision are set out in section 5 of this report.

All documents related to this Rule Change Proposal can be found on the IMO website: http://www.imowa.com.au/RC_2012_05

2. PROPOSED AMENDMENTS

2.1 The Rule Change Proposal

The Rule Change Proposal has been developed to address a manifest error identified with clause 9.9.2 of the Amending Rules resulting from RC_2011_10 which would otherwise result in Verve Energy paying to supply Ancillary Services to the market when the Balancing Price is less than zero.

This issue was previously addressed during 2009 by the Rule Change Proposal: Treatment of Negative MCAP on the settlement of Ancillary Services (RC_2009_21), relating to the treatment of negative Marginal Cost Administered Price (MCAP) on the settlement of Ancillary Services. It appears that during the drafting of the Amending Rules for RC_2011_10 the amendments to clause 9.9.2 (as a result of RC_2009_21) were not incorporated due to an oversight. Verve Energy considers that this was an oversight during the drafting process.

To address the issue Verve Energy proposed that clause 9.9.2 of the Amending Rules approved under RC_2011_10 be amended to incorporate a price floor on the value of the Balancing Price used in the Spinning Reserve Service availability cost calculations.

For full details of the Rule Change Proposal please refer to the IMO website.

¹ For further details of the Amending Rules resulting from RC_2011_10 refer to the following website: http://www.imowa.com.au/RC_2011_10

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 an 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 described in section 2.6 of the Market Rules, on the grounds that it satisfies the criteria in clause 2.5.9(b) of the Market Rules.

The IMO considered that the proposed amendments will correct a manifest error in the Amending Rules from RC_2011_10 which would otherwise result in Verve Energy paying to supply Spinning Reserve Service when the Balancing Price is negative. This issue was originally corrected via the inclusion of a price floor in the Amending Rules resulting from RC_2009_21. During the process of drafting the Amending Rules for the new Balancing and Load Following Markets there was an unintentional oversight that resulted in the same price floor not being included into the Amending Rules for RC_2011_10. The IMO noted that it did not intend to remove this price floor.

3. CONSULTATION

3.1 The Market Advisory Committee

The pre-Rule Change Proposal was discussed at the Market Advisory Committee (MAC) meeting on 18 April 2012. MAC members agreed that the proposal should be progressed using the Fast Track Rule Change Process.

Further details are available in the MAC meeting minutes available on the IMO website: <http://www.imowa.com.au/MAC>

3.2 Submissions received during the consultation period

The consultation period for this Rule Change Proposal was between 20 April 2012 and 11 May 2012.

System Management and Perth Energy both expressed an interest to be consulted during the consultation period.

The IMO received a submission from Perth Energy supporting the Rule Change Proposal. Perth Energy agreed that the issue relates to a manifest error in the Market Rules as the drafting of the new Balancing and Load Following arrangements seems to have inadvertently reintroduced the issue that was addressed previously with the implementation of RC_2009_21. Perth Energy considers that the proposed changes will remove a potential disincentive to provide Ancillary Services during periods of negative Balancing Prices and therefore would facilitate the achieve of Market Objective (a).

System Management reviewed the proposal and did not consider it necessary to make a submission as it did not have any concerns with Verve Energy's proposed amendments.

A copy of Perth Energy's submission in full is available on the IMO website.

3.3 Public Forums and Workshops

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

4. THE IMO'S FINAL ASSESSMENT

In preparing its 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 in respect of this Rule Change nor has it commissioned a technical review in respect of this Rule Change Proposal. A summary of the views expressed in submissions and by the MAC is available in section 3 of this Final Rule Change Report.

The IMO's assessment of the Rule Change Proposal is outlined in the following sub-sections.

4.1 Wholesale Market Objectives

The IMO considers that the Market Rules as a whole, if amended as presented in section 6.2, will not only be consistent with the Wholesale Market Objectives but also allow the Market Rules to better Wholesale Market Objective (a).

The IMO's assessment is presented below:

- (a) *to promote the economically efficient, safe and reliable production and supply of electricity and electricity related services in the South West Interconnected System:*

The IMO considers that the proposed amendments will better address Wholesale Market Objective (a) by ensuring that the system can adequately respond to real time changes in load and generation under a range of scenarios. The proposed changes will ensure that once the new Balancing market commences Verve Energy will continue to be incentivised to supply Ancillary Services by better reflecting the true value to the market of those Ancillary Services when the Balancing Prices is negative. This will ensure the safe and reliable production of electricity can be maintained in the South West interconnected system (SWIS)

The IMO notes that following the commencement of the Amending Rules from RC_2011_10 Verve Energy's proposed changes will have the same impacts as those resulting from RC_2009_21 on better addressing Wholesale Market Objective (a).

The IMO also considers that the proposed amendments are consistent with the other Market Objectives.

4.2 Practicality and Cost of Implementation

Cost:

The IMO has assessed that this Rule Change Proposal will require amendments to the settlement systems operated by the IMO. It has been estimated that the associated changes to the settlement systems will be approximately AUD \$9100. It is anticipated that testing, deployment and environment provision will be undertaken in-house and will not incur any costs.

It is not expected that Market Participants will incur any costs as a result of this Rule Change Proposal.

Practicality:

The IMO does not anticipate any issues with the practicality of implementing the proposed amendments. These amendments will be implemented as a part of the system changes required for the new Balancing and Load Following markets.

5. THE IMO'S FINAL DECISION

Based on the matters set out in this report, the IMO's final decision is to accept the proposed amendments to clause 9.9.2 of the Market Rules.

5.1 Reasons for the IMO's Decision

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

- Will allow the Market Rules to better achieve Wholesale Market Objective (a);
- Are consistent with the other Market Objectives;
- Have the support of the MAC; and
- Have the support of submissions received during the consultation period.

Additional detail outlining the analysis behind the IMO decision 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 **8.00 am** on **Balancing Market Commencement Day**.

6.2 Amending Rules²

The IMO has decided to implement the following Amending Rules (~~deleted text~~, added text):

9.9.2. The following terms relate to Load Following Service and Spinning Reserve Service costs in Trading Month m:

...

Where

t denotes a Trading Interval in Trading Month m;

² The proposed amendments have been shown on the Amending Rules of RC_2011_10

T is the set of Trading Intervals in Trading Month m;

LF_Up(p,t) is the sum of any Ex-post Upwards LFAS Enablement quantities provided under clause 7.13.1(e) for LFAS Facilities registered to Market Participant p in Trading Interval t;

LF_Up_Price(t) is the Upwards LFAS Price for Trading Interval t;

LF_Up_Backup(p,t) is the sum of any Upwards LFAS Backup Enablement quantities for Trading Interval t if Market Participant p is Verve Energy and 0 otherwise;

LF_Up_Backup_Price(p,t) is the Backup Upwards LFAS Price for Trading Interval t if Market Participant p is Verve Energy and 0 otherwise;

LF_Down(p,t) is the sum of any Ex-post Downwards LFAS Enablement quantities provided under clause 7.13.1(eC) for LFAS Facilities registered to Market Participant p in Trading Interval t;

LF_Down_Price(t) is the Downwards LFAS Price for Trading Interval t;

LF_Down_Backup(p,t) is the sum of any Downwards LFAS Backup Enablement quantities for Trading Interval t if Market Participant p is Verve Energy and 0 otherwise;

LF_Down_Backup_Price(p,t) is the Backup Downwards LFAS Price for Trading Interval t if Market Participant p is Verve Energy and 0 otherwise;

Balancing_Price(t) is the greater of zero and the Balancing Price for Trading Interval t;

...