

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 in a hilly, open landscape under a clear sky.

Independent Market Operator

**Final Rule Change Report
Title: Constrained On and Off Prices for
Non-Scheduled Generators**

RC_2012_08

Fast Track Rule Change Process

Date: 25 June 2012

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Independent Market Operator

Level 3, Governor Stirling Tower
197 St George's Terrace, Perth WA 6000
PO Box 7096, Cloisters Square, Perth WA 6850
Tel. (08) 9254 4300
Email: imo@imowa.com.au
Website: www.imowa.com.au

EXECUTIVE SUMMARY

Proposed Amendments

This Rule Change Proposal seeks to amend a manifest error in new clauses 6.17.3A(b) and 6.17.4A(b) of the Amending Rules resulting from the Rule Change Proposal: Competitive Balancing and Load Following Market (RC_2011_10), so that Constrained On Compensation Prices and Constrained Off Compensation Prices for Non-Scheduled Generators are calculated as positive rather than negative amounts. The proposed amendments will bring these calculations into alignment with the corresponding calculations for Scheduled Generators and the Verve Energy Balancing Portfolio, and will ensure that Non-Scheduled Generators dispatched “out of merit” are paid (and therefore appropriately compensated) in these instances rather than incorrectly being charged.

Consultation

The Rule Change Proposal was submitted on 1 June 2012 and the consultation period was held between 2 June 2012 and 18 June 2012. Perth Energy requested to be consulted and made a submission supporting the proposal. System Management also requested to be consulted but later advised that it did not consider it necessary to make a submission. An out-of-session submission was also received from Landfill Gas & Power, supporting the Rule Change Proposal.

The Rule Change Proposal was discussed at the Market Advisory Committee (MAC) meeting on 13 June 2012. MAC members agreed that the Rule Change Proposal sought to correct a manifest error and should be progressed using the Fast Track Rule Change Process.

Assessment against Wholesale Market Objectives

The proposed amendments are found to not only be consistent with the Wholesale Market Objectives, but also to better achieve Market Objective (c).

Practicality and Cost of Implementation

No additional costs have been identified with regard to this Rule Change Proposal. No issues have been identified with the practicality of implementation.

The IMO's Decision

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

Next steps

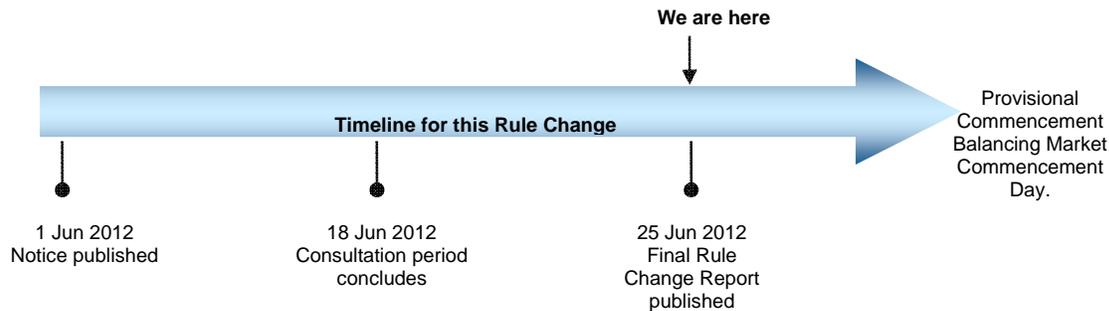
The Amending Rules will commence at **8.00am** on **Balancing Market Commencement Day**.

1. RULE CHANGE PROCESS AND TIMETABLE

On 1 June 2012, the IMO submitted a Rule Change Proposal regarding amendments to new clauses 6.17.3A(b) and 6.17.4A(b) of the Amending Rules resulting from the Rule Change Proposal: Competitive Balancing and Load Following Market (RC_2011_10), which are due to commence on 1 July 2012.

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: www.imowa.com.au/RC_2012_08.

2. PROPOSED AMENDMENTS

2.1 The Rule Change Proposal

The new Balancing Market arrangements resulting from RC_2011_10 include the payment of Constrained On Compensation and Constrained Off Compensation to Market Generators for out of merit dispatch. Two errors affecting the calculation of these payments for Non-Scheduled Generators have been identified in the proposed Amending Rules for RC_2011_10.

The IMO proposed to correct the order of the terms in the subtractions in new clauses 6.17.3A(b) and 6.17.4A(b), so that Constrained On Compensation Prices and Constrained Off Compensation Prices for Non-Scheduled Generators are calculated as positive amounts. The proposed amendments will bring these calculations into alignment with the corresponding calculations for Scheduled Generators and the Verve Energy Balancing Portfolio and will ensure that Non-Scheduled Generators are paid (and therefore appropriately compensated) in these instances rather than incorrectly being charged.

For full details of the Rule Change Proposal please refer to the IMO Website: www.imowa.com.au/RC_2012_08.

2.2 The IMO's Initial Assessment of the Proposal

The IMO decided to progress the Rule Change Proposal on the basis of its preliminary assessment that the proposal is consistent with the Wholesale Market Objectives and is required to address a manifest error in the Market Rules.

The IMO considered that this Rule Change Proposal corrects a manifest error in the Amending Rules for RC_2011_10. Under the current drafting, Market Generators would be required to pay Constrained On Compensation and Constrained Off Compensation for their Non-Scheduled Generators, instead of being paid these amounts. This is both contrary to the intent of these payments (to compensate Market Generators for potential losses resulting from Out Of Merit dispatch) and inconsistent with the treatment of Scheduled Generators and the VEBP. As such, the IMO decided to progress the proposal using the Fast Track Rule Change Process, on the grounds that it satisfies the criteria in clause 2.5.9 (b).

3. CONSULTATION

3.1 The Market Advisory Committee

The Rule Change Proposal was discussed at the Market Advisory Committee (MAC) meeting on 13 June 2012.

In response to a query from Ms Wana Yang it was clarified that a Verve Energy Facility dispatched to provide a Dispatch Support Service would not receive Constrained On Compensation in addition to the payment under its Ancillary Service Contract.

MAC members agreed that the Rule Change Proposal amended a manifest error and should be progressed according to 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 2 June 2012 and 18 June 2012. The period for issuing requests to be consulted concluded on 11 June 2012.

Perth Energy and System Management requested to be consulted on this Rule Change Proposal. An out of session submission was also received from Landfill Gas & Power (LGP).

System Management later advised that it did not consider it necessary to make a submission. Perth Energy and LGP provided submissions supporting the Rule Change Proposal on the grounds that it corrected a manifest error and that the proposed amendments would improve the overall integrity of the market.

Perth Energy also considered that the proposed amendments would better achieve Wholesale Market Objectives (a), (b), (c) and (d).

3.3 Public Forums and Workshops

No public forum or workshop was 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 achieve Wholesale Market Objective (c).

The IMO's assessment is presented below:

- (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:*

The IMO considers that once the Amending Rules from RC_2011_10 commence the proposed amendments will avoid discrimination against Non-Scheduled Generators that are dispatched Out Of Merit, by ensuring that they are paid Constrained On Compensation and Constrained Off Compensation in the same way as other Balancing Facilities.

Further, the IMO considers that the proposed amendments correct a manifest error in the Amending Rules for RC_2011_10 and are consistent with the Wholesale Market Objectives.

4.2 Practicality and Cost of Implementation

Cost:

The IMO has not identified any additional IT or other costs for this Rule Change Proposal.

Practicality:

The IMO has not identified any issues with the practicality of implementing this Rule Change Proposal.

5. THE IMO'S FINAL DECISION

Based on the matters set out in this report, the IMO's final decision is to accept the Rule Change Proposal.

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 (c);
- are consistent with the other Wholesale Market Objectives;
- have the support of the MAC; and
- have the support of the submissions received during the consultation period.

Additional detail outlining the analysis behind the IMO's 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 Rules

The IMO has decided to implement the following Amending Rules¹ (~~deleted text~~, added text):

- 6.17.3A Subject to clause 6.17.5B, for any Balancing Facility that is a Non-Scheduled Generator, in a Trading Interval:
- (a) ConQ1 equals the Upwards Out of Merit Generation, in MWh, for the Trading Interval, which for settlement purposes under Chapter 9 the IMO must Loss Factor adjust; and
 - (b) ConP1 equals ~~the Balancing Price for that Trading Interval less~~ the Loss Factor Adjusted Price in the Balancing Price-Quantity Pair associated with the Balancing Facility for that Trading Interval less the Balancing Price for that Trading Interval.
- 6.17.4A. Subject to clause 6.17.5B, for any Balancing Facility that is a Non-Scheduled Generator, in a Trading Interval:
- (a) CoffQ1 equals the Downwards Out of Merit Generation, in MWh, for that Trading Interval, which for settlement purposes under Chapter 9 the IMO must Loss Factor adjust; and
 - (b) CoffP1 equals ~~the Loss Factor Adjusted Price in the Balancing Price-Quantity Pair associated with the Balancing Facility less~~ the Balancing Price for that

¹ The proposed amendments have been shown on the Amending Rules resulting from RC_2011_10

Trading Interval less the Loss Factor Adjusted Price in the Balancing Price-Quantity Pair associated with the Balancing Facility for that Trading Interval.