



INDEPENDENT
MARKET
OPERATOR

Final Rule Change Report

Title: Five-yearly Review of the Planning Criterion

RC_2012_21

Standard Rule Change Process

Date: 18 April 2013

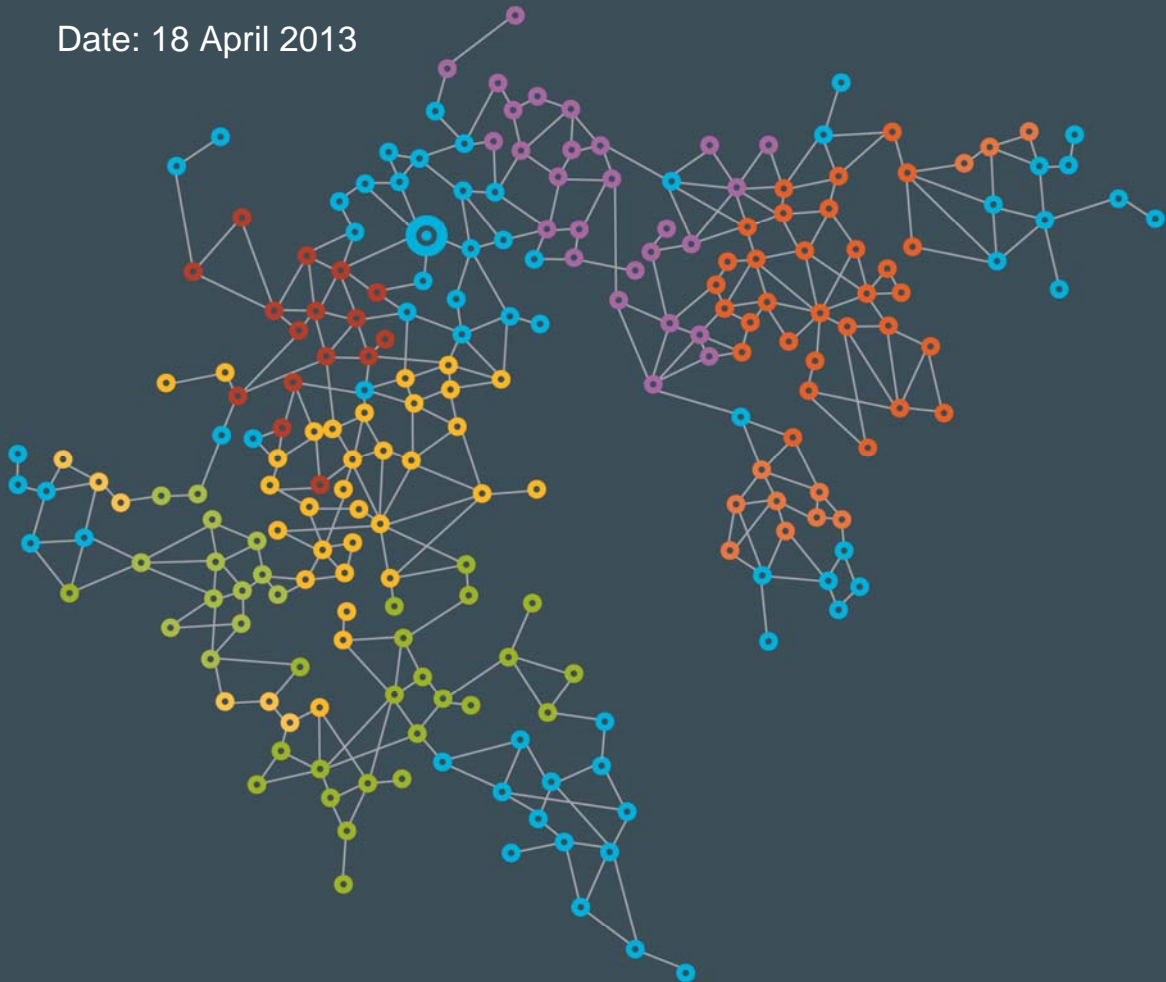


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Executive Summary

Proposed amendments

The IMO developed this Rule Change Proposal to implement the recommendations resulting from the 5-yearly review of the Planning Criterion, which was completed on 2 November 2012. The IMO's recommendations were that:

- the form of the current Planning Criterion be retained;
- the reserve margin be lowered from 8.2% to 7.6%; and
- the unserved energy component of the Planning Criterion be retained due to its role in the determination of the Availability Curve.

The IMO proposes to amend clause 4.5.9(a) of the Market Rules to lower the reserve margin from 8.2% to 7.6%.

Consultation

The Pre Rule Change Proposal was discussed at the Market Advisory Committee (MAC) on 14 November 2012. The MAC supported the submission of the proposal into the formal rule change process.

The Rule Change Proposal was submitted on 20 November 2012 and the first submission period was held between 21 November 2012 and 18 January 2013. Submissions were received from Alinta Energy (Alinta), Community Electricity and Perth Energy. Community Electricity supported the Rule Change Proposal on the grounds that it implemented the outcome of the Planning Criterion review. Alinta noted that the combined effect of other work streams on the Reserve Capacity Price needed to be considered. Alinta also reiterated its support for an overarching review of the Wholesale Electricity Market. Perth Energy did not support the Rule Change Proposal, citing the isolated nature of the South West interconnected system (SWIS) and recent history around multiple concurrent generator outages.

The second submission period was held between 19 February 2013 and 19 March 2013. A submission was received from Community Electricity responding to objections raised in submissions received during the first submission period.

Assessment against Wholesale Market Objectives

The IMO has assessed that the proposed amendments better achieve Wholesale Market Objectives (a) and (d).

Practicality and Cost of Implementation

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

The IMO's Decision

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

Next Steps

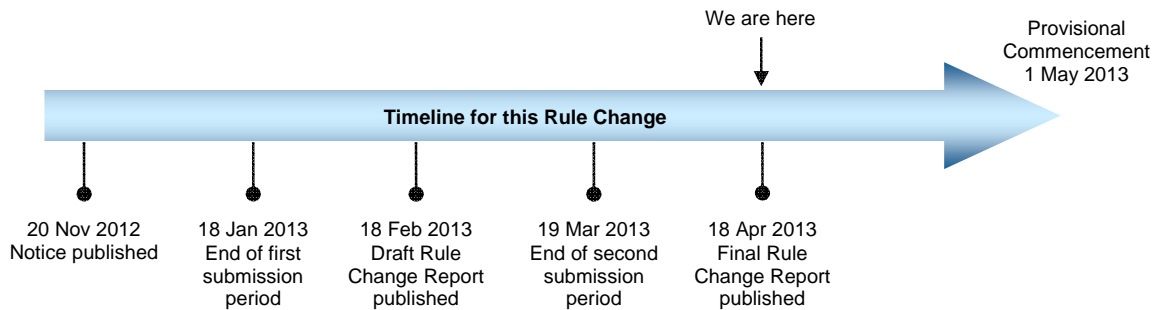
The Amending Rules will provisionally commence at **8.00 AM** on **1 May 2013**.

1. Rule Change Process and Timetable

On 20 November 2012 the IMO submitted a Rule Change Proposal regarding amendments to clause 4.5.9 of the Wholesale Electricity Market (WEM) Rules (Market Rules).

This proposal is being processed using the Standard Rule Change Process, described in section 2.7 of the Market Rules.

The key dates in processing this Rule Change Proposal are:



2. Proposed Amendments

2.1. The Rule Change Proposal

The Planning Criterion sets the minimum acceptable level of generation and Demand Side Management (DSM) capacity, known as the Reserve Capacity Requirement, in the South West interconnected system (SWIS).

The current Planning Criterion, defined in clause 4.5.9 of the Market Rules, requires sufficient generation and DSM capacity to:

- meet the 10% Probability of Exceedence (PoE) peak demand plus an allowance of 8.2% to cover unplanned Facility Outages, while maintaining capacity for frequency keeping and Intermittent Loads (the Defined Scenario); and
- limit expected energy shortfalls to 0.002% of annual energy consumption.

Clause 4.5.15 of the Market Rules requires the IMO to conduct a review of the Planning Criterion and the process by which it forecasts SWIS peak demand at least once in every five year period. The last review was completed in 2007. The IMO engaged Market Reform, an independent consultant, to undertake the review in 2012. The IMO published Market Reform's draft report and an invitation for stakeholders to provide submissions on 16 August 2012. A public workshop was held on 31 August 2012, and a public submission period was held from 16 August to 11 September 2012.

Following consideration of submissions from stakeholders, the IMO published a final report on 2 November 2012. The IMO's recommendations were that:

- the form of the current Planning Criterion be retained;
- the reserve margin be lowered from 8.2% to 7.6%; and

- the unserved energy component of the Planning Criterion be retained due its role in the determination of the Availability Curve.

Documents relating to the 5-yearly Planning Criterion review are available on the Market Web Site: <http://www.imowa.com.au/rcreviews>.

Following the completion of the Planning Criterion Review, the IMO developed this Rule Change Proposal to implement the recommendation of lowering the reserve margin from 8.2% to 7.6%.

For full details of the Rule Change Proposal please refer to the Market Web Site: http://www.imowa.com.au/rc_2012_21

2.2. The IMO's Initial Assessment of the Proposal

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

3. Consultation

3.1. The Market Advisory Committee

A Pre Rule Change Proposal was discussed at the Market Advisory Committee (MAC) on 14 November 2012. The following comments and questions were raised by MAC members:

- Mr Stephen MacLean queried whether more detail could be provided on how the 10% PoE was calculated. Mr Greg Ruthven noted that Synergy had raised this issue in its submission on the 5-yearly review of SWIS Forecasting Processes and added that the consultant's report for that review would be updated with further information on the PoE methodology.
- Mr MacLean suggested that the reference to the required percentage of reserve margin could be taken out of the Market Rules and put into the relevant Market Procedure because the percentage may be expected to change over time and was the sort of detail that should be retained in a Market Procedure. Ms Jacinda Papps noted that the heads of power in the Market Rules might need to be changed to facilitate this. The Chair noted that the IMO will consider whether it would be appropriate to move the reference into the Market Procedure.

The IMO has further considered that the percentage of the reserve margin should be retained in the Market Rules as it is not subject to frequent changes. Since it is the subject of a 5-yearly review, a change to the reserve margin, if recommended in future reviews, should remain the subject of a well-considered Rule Change Proposal.

- The MAC agreed that the Rule Change Proposal should be submitted into the formal process.

Further details are available in the MAC meeting minutes available on the Market Web Site: http://www.imowa.com.au/MAC_55

3.2. Submissions received during the first submission period

The first submission period for this Rule Change Proposal was held between 21 November 2012 and 18 January 2013. The first submission period was extended by 10 days to account for the Christmas holidays. Submissions were received from Alinta Energy (Alinta), Community Electricity and Perth Energy.

Alinta's submission was silent on offering or withholding support for the Rule Change Proposal. However, Alinta highlighted the importance of continuing to consider the overall impact of different work streams on the Reserve Capacity Price (RCP) and supported an overarching review of the market design.

Community Electricity supported the Rule Change Proposal on the grounds that it implemented the recommendations from the 5-yearly Planning Criterion Review. In particular, Community Electricity supported the following principles:

- the level of reserve margin should be fit-for-purpose without unnecessarily increasing the total system cost; and
- the level of reserve margin is unrelated to separate developments in respect of the Reserve Capacity Mechanism Review and the procedure for determining the Maximum Reserve Capacity Price (and by extension the Reserve Capacity Price).

Perth Energy did not support the Rule Change Proposal on the grounds that it was not prudent to relax the Planning Criterion given the isolated nature of the SWIS and the recent history of multiple concurrent generator outages.

A copy of all submissions in full received during the first submission period is available on the Market Web Site: http://www.imowa.com.au/rc_2012_21

3.3. The IMO's response to submissions received during the first submission period

The IMO's response to submissions received during the first submission period are detailed in Section 4.3 of the Draft Rule Change Report available on the Market Web Site: http://www.imowa.com.au/rc_2012_21

3.4. Submissions received during the second submission period

Following publication of the Draft Rule Change Report on the Market Web Site, the second submission period was between 19 February 2013 and 19 March 2013.

The IMO received a submission from Community Electricity. Community Electricity noted the objections that had been raised by previous submitters and considered that the adjustment to the reserve margin was too small to be of any relevance. It added that the adjustment was minor when expressed as the difference between the absolute megawatt quantities of the present reserve margin versus the reserve margin for the system that prevailed when the original figure was determined. Community Electricity further added that the magnitude of adjustment is also much smaller than the planned excess capacity in the WEM over the next three years.

A copy of the submission in full received during the second submission period is available on the following Market Web Site: http://www.imowa.com.au/rc_2012_21

3.5. Public Forums and Workshops

During the Planning Criterion review, a public workshop was held on 31 August 2012. Documents relating to the workshop are available on the Market Web Site: <http://www.imowa.com.au/rcreviews>. However, no public forums or workshops were held with regard to this Rule Change Proposal.

4. The IMO's Draft Assessment

The IMO's draft assessment, against clauses 2.4.2 and 2.4.3 of the Market Rules, and analysis of the Rule Change Proposal can be viewed in the Draft Rule Change Report available on the Market Web Site: http://www.imowa.com.au/rc_2012_21

5. The IMO's Proposed Decision

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

The wording of the relevant Amending Rule is present in section 7 of the Draft Rule Change Report.

The IMO made its proposed decision on the basis that the Amending Rule:

- better achieves Wholesale Market Objectives (a) and (d);
- is consistent with the remaining Wholesale Market Objectives; and
- has the general support of the MAC.

6. 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. The IMO had commissioned the 5-yearly technical review of the Planning Criterion. This Rule Change Proposal was developed to implement the recommendations of that review.

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.

6.1. Additional Amendments to the Amending Rules

The IMO has not made any additional amendments to the Amending Rules.

6.2. Wholesale Market Objectives

The IMO considers that the Market Rules as a whole, if amended as presented in section 7, will not only be consistent with the Wholesale Market Objectives but also allow the Market Rules to better achieve Wholesale Market Objectives (a) and (d).

- (a) *to promote the economically efficient, safe and reliable production and supply of electricity and electricity related services in the South West interconnected system;*
- (d) *to minimise the long-term cost of electricity supplied to customers from the South West interconnected system*

The IMO notes that alignment with the Wholesale Market Objectives requires a balance between “reliable and safe production of electricity” (objective (a)), “economically efficient” (objective (a)) and the objective to “minimise the long-term cost of electricity” (objective (d)).

The SWIS has changed materially since the Planning Criterion was last reviewed in 2007. The recommended change to the reserve margin optimises the costs of capacity and unserved energy given the current SWIS context and the expected changes to the market over the next five years.

In doing so, the recommended change promotes an economically efficient and reliable level of reserve margin that seeks to minimise the total system cost.

Consequently, the IMO considers that the recommended change to the reserve margin would better achieve Wholesale Market Objectives (a) and (d).

The IMO also considers that the recommended change to the Planning Criterion is consistent with the other Wholesale Market Objectives.

6.3. Practicality and Cost of Implementation

6.3.1. Cost:

No costs associated with implementing the proposed change have been identified. The Rule Change Proposal will require minor changes to the Market Procedure for undertaking the Long Term PASA study to ensure that there is sufficient available capacity in each Capacity Year for the duration of the Long Term PASA Study Horizon. However, the cost of these changes falls within the IMO’s normal operating budget.

6.3.2. Practicality:

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

7. The IMO’s Decision

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

7.1. Reasons for the decision

The IMO made its decision on the basis that the Amending Rule:

- better achieves Wholesale Market Objectives (a) and (d);

- are consistent with the remaining Wholesale Market Objectives; and
- has the general support of the MAC.

8. Amending Rules

8.1. Commencement

The amendment to the Market Rules resulting from this Rule Change Proposal will provisionally commence at **8.00 am on Wednesday, 1 May 2013**.

8.2. Amending Rules

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

- 4.5.9. The Planning Criterion to be used by the IMO in undertaking a Long Term PASA study is that there should be sufficient available capacity in each Capacity Year during the Long Term PASA Study Horizon to:
- (a) meet the forecast peak demand (including transmission losses and allowing for Intermittent Loads) supplied through the SWIS plus a reserve margin equal to the greater of:
 - i. ~~8.27.6%~~ of the forecast peak demand (including transmission losses and allowing for Intermittent Loads); and
 - ii. the maximum capacity, measured at 41°C, of the largest generating unit; while maintaining the Minimum Frequency Keeping Capacity for normal frequency control. The forecast peak demand should be calculated to a probability level that the forecast would not be expected to be exceeded in more than one year out of ten; and
 - (b) limit expected energy shortfalls to 0.002% of annual energy consumption (including transmission losses).