

Rule Change Notice 5-Yearly Review of the Planning Criterion (RC_2012_21)

This notice is given under clause 2.5.7 of the Market Rules.

Date Submitted: 20 November 2012

Submitter: Greg Ruthven, IMO

The Proposal

The IMO has developed the Rule Change Proposal: 5-Yearly Review of the Planning Criterion to implement its recommendations resulting from the 2012 review of the Planning Criterion and the process by which it forecasts SWIS peak demand at least once in every five year period. The IMO engaged Market Reform, an independent consultant, to undertake the review in 2012. The IMO published the final report of the review on Market Web Site 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.

To implement these recommendations, the IMO has proposed a change to the reserve margin component in clause 4.5.9(a)(i) lowering it from 8.2% to 7.6%.

Appendix 1 contains the Rule Change Proposal and gives complete information about:

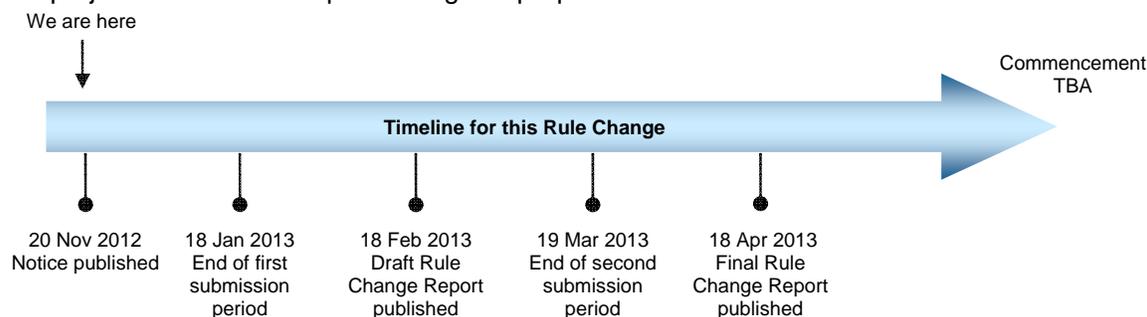
- the proposed amendments to the Market Rules;
- relevant references to clauses of the Market Rules and any proposed specific amendments to those clauses; and
- the submitter's description of how the proposed amendments would allow the Market Rules to better address the Wholesale Market Objectives.

Decision to Progress the Rule Change

The IMO has 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.

Timeline

The projected timelines for processing this proposal are:



Call for Submissions

The IMO invites interested stakeholders to make submissions on this Rule Change Proposal. The submission period is 40 Business Days from the publication date of this Rule Change Notice. Submissions must be delivered to the IMO by **5.00pm, Friday 18 January 2013**.

The IMO prefers to receive submissions by email (using the submission form available on the Market Web Site: <http://www.imowa.com.au/rule-changes>) to: market.development@imowa.com.au

Submissions may also be sent to the IMO by fax or post, addressed to:

Independent Market Operator

Attn: Group Manager, Market Development
PO Box 7096
Cloisters Square, PERTH, WA 6850
Fax: (08) 9254 4399

Wholesale Electricity Market Rule Change Proposal

Change Proposal No: *RC_2012_21*
Received date: *20 November 2012*

Change requested by:

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Email:	greg.ruthven@imowa.com.au
Organisation:	IMO
Address:	Level 17, 197 St Georges Tce, Perth 6000
Date submitted:	20 November 2012
Urgency:	Medium
Change Proposal title:	5-Yearly Review of Planning Criterion
Market Rule(s) affected:	4.5.9

Introduction

Market Rule 2.5.1 of the Wholesale Electricity Market Rules provides that any person (including the IMO) may make a Rule Change Proposal by completing a Rule Change Proposal Form that must be submitted to the Independent Market Operator.

This Change Proposal can be posted, faxed or emailed to:

Independent Market Operator
Attn: Group Manager, Market Development
PO Box 7096
Cloisters Square, Perth, WA 6850
Fax: (08) 9254 4339
Email: market.development@imowa.com.au

The Independent Market Operator will assess the proposal and, within 5 Business Days of receiving this Rule Change Proposal form, will notify you whether the Rule Change Proposal will be further progressed.

In order for the proposal to be progressed, all fields below must be completed and the change proposal must explain how it will enable the Market Rules to better contribute to the achievement of the wholesale electricity market objectives. The objectives of the market are:

- (a) to promote the economically efficient, safe and reliable production and supply of electricity and electricity related services in the South West interconnected system;
- (b) to encourage competition among generators and retailers in the South West interconnected system, including by facilitating efficient entry of new competitors;
- (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;
- (d) to minimise the long-term cost of electricity supplied to customers from the South West interconnected system; and
- (e) to encourage the taking of measures to manage the amount of electricity used and when it is used.

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:

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

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

- Meet the 10% 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 5 year period. The last review was completed in 2007.

The IMO engaged Market Reform, an independent consultant, to undertake this review in 2012. The IMO published Market Reform's Draft Report and an Invitation to Provide Submissions on 16 August 2012.

The IMO has already consulted with stakeholders in relation to this review. A public workshop was held on 31 August 2012, and a public submission period ran 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.

The following documents related to the review are available on the IMO website (<http://www.imowa.com.au/rcreviews>):

- Market Reform's Draft Report and Final Report;
- the IMO's Final Report;
- documents related to the stakeholder workshop held on 31 August 2012; and
- full submissions from stakeholders on the Draft Report.

2. Explain the reason for the degree of urgency:

The IMO proposes that this Rule Change Proposal be progressed via the Standard Rule Change Process. If approved, the change to the Planning Criterion should be implemented prior to the publication of the 2013 Statement of Opportunities in June 2013.

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

- 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. ~~8.2~~7.6% 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).

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

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 Market Objectives (a) and (d).

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

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

Costs:

- The IMO has identified that the cost of implementation of a change to the reserve margin is nil. The IMO has not identified any issues with the practicality of implementing the proposed changes to the Planning Criterion.

Benefits:

- The IMO considers that the proposed change to the Planning Criterion will minimise the long-term cost of electricity by striking a balance between the costs of capacity and unserved energy.