

## Rule Change Notice

### LFAS Facility definition (RC\_2013\_03)

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

**Submitter:** Allan Dawson, IMO

**Date Submitted:** 10 April 2013

#### The Proposal

The defined term “LFAS Facility” is used throughout the Market Rules. In most cases it is clear that the term is intended to cover the Verve Energy Balancing Portfolio (VEBP) in addition to any applicable Stand Alone Facilities or independent power producer (IPP) Facilities that provide Load Following Service (LFAS). However, the definition of LFAS Facility in the Glossary specifically excludes the VEBP, which leads to a number of absurd outcomes.

The IMO considers the exclusion of the VEBP from the definition of LFAS Facility is a manifest error in the Market Rules. It should be noted that clause 7B.1.6 already extends the definition of LFAS Facility to include the VEBP, but only for the purposes of Chapter 7B Load Following Service Market.

The IMO proposes to amend the Glossary definition of LFAS Facility to include the VEBP. The IMO also proposes a number of minor amendments to related definitions and clauses to ensure they align with the extended definition.

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.

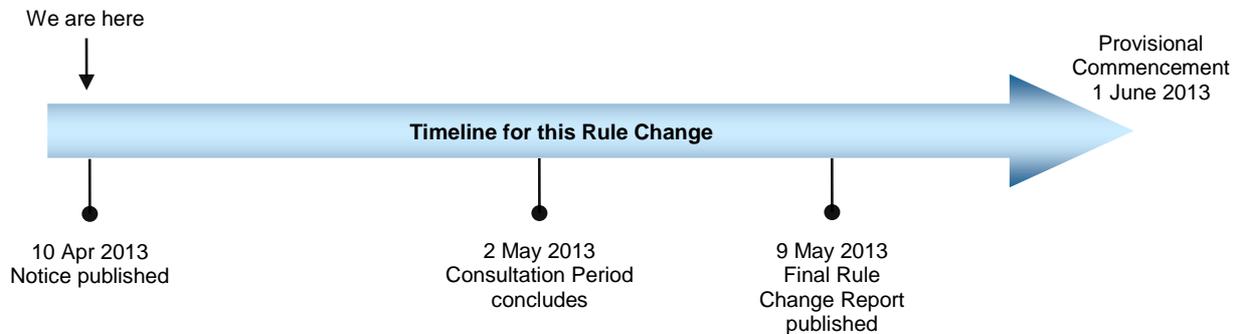
#### Decision to Progress the Rule Change

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.

The IMO has decided to subject the Rule Change Proposal to the Fast Track Rule Change Process described in section 2.6 of the Market Rules, on the grounds that it satisfies the criteria in clauses 2.5.9(b) of the Market Rules.

## Timeline

The projected timelines for processing this proposal are:



## Call for Submissions

Any Rule Participant wishing to be consulted regarding this Rule Change Proposal is invited to notify the IMO within 5 Business Days of this notice being published (**17 April 2013**).

The consultation period is 15 Business Days from the publication date of this Rule Change Notice. Submissions must be delivered to the IMO by **5.00pm on Wednesday, 2 May 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](mailto: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, Development and Capacity  
PO Box 7096  
Cloisters Square, PERTH, WA 6850  
Fax: (08) 9254 4399



INDEPENDENT  
MARKET  
OPERATOR

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## Wholesale Electricity Market Rule Change Proposal

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**Rule Change Proposal ID:** RC\_2013\_03  
**Date received:** 10 April 2013  
**Change requested by:**

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<b>Date submitted:</b>	10 April 2013
<b>Urgency:</b>	Fast Track
<b>Change Proposal title:</b>	LFAS Facility definition
<b>Market Rules affected:</b>	7B.1.6, 7B.2.10 and the Glossary.

### 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, Development and Capacity  
PO Box 7096  
Cloisters Square, Perth, WA 6850  
Fax: (08) 9254 4339  
Email: [market.development@imowa.com.au](mailto: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.

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## Details of the Proposed Rule Change

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

#### Background

Under the new Load Following Service (LFAS) Market arrangements, LFAS may be provided by the Verve Energy Balancing Portfolio (VEBP), or any Verve Energy Stand Alone Facility or Independent Power Producer (IPP) Facility that meets the LFAS Facility Requirements. Verve Energy remains the primary supplier of LFAS for the Wholesale Electricity Market (WEM), and must provide an LFAS Submission for each Trading Interval that covers the full LFAS Requirement determined by System Management. For other Market Participants participation in the LFAS Market is optional.

Under normal circumstances LFAS is provided in accordance with the LFAS Merit Order, determined by the IMO from the LFAS Submissions received from Market Participants for the relevant Trading Interval. However, where a selected LFAS Facility fails to provide its requested capacity or additional LFAS is required, System Management may use the VEBP or an appropriate Stand Alone Facility to meet an LFAS shortfall.

For LFAS selected through the LFAS Merit Order, each provider (including Verve Energy) is paid for the MW capacity from its facilities that was activated to provide LFAS at the end of the relevant Trading Interval (Ex-post Downwards LFAS Enablement and Ex-post Upwards LFAS Enablement). Verve Energy is also paid for any further backup capacity activated by System Management during the Trading Interval (Downwards Backup LFAS Enablement and Upwards Backup LFAS Enablement).

Under clauses 7.13.1(e), (eA), (eB) and (eC) of the Market Rules, System Management must

provide these quantities to the IMO for a Trading Day by noon on the first Business Day following the day on which the Trading Day ends. This data is then used by the IMO to calculate the LFAS payments to Market Participants in accordance with clause 9.9.2.

Clause 7B.2.15 prohibits a Market Participant with market power from offering LFAS prices in excess of the Market Participant's reasonable expectation of the incremental change in short run marginal cost incurred by the relevant Facilities.

## **Issue**

The defined term "LFAS Facility" is used throughout the Market Rules. In most cases it is clear that the term is intended to cover the VEBP in addition to any applicable Stand Alone Facilities or IPP Facilities. However, the definition of LFAS Facility in the Glossary specifically excludes the VEBP, which leads to a number of absurd outcomes.

For example, clauses 7.13.1(e), (eA), (eB) and (eC) require System Management to provide the IMO with LFAS enablement quantities for "each LFAS Facility". Further, the definitions of the  $LF\_Up(p,t)$  and  $LF\_Down(p,t)$  parameters in clause 9.9.2 also refer to quantities (Ex-post Upwards LFAS Enablement and Ex-post Downwards LFAS Enablement) provided for LFAS Facilities. Taken literally, this would mean that System Management was not required to provide any LFAS enablement quantities to the IMO for the VEBP, and that any Ex-post Upwards LFAS Enablement or Ex-post Downwards LFAS Enablement quantities provided for the VEBP should be excluded from the calculation of LFAS payments. This would prevent Verve Energy from receiving any LFAS payment for the VEBP, even though it is the default supplier of LFAS in the WEM.

A similar problem exists with the obligation on the ERA to monitor LFAS Submission prices for breaches of clause 7B.2.15. The relevant clauses (2.16.9(b)(iii), 2.16.9B(b) and 2.16.9G(c)) all refer to "LFAS Facility". It would be absurd to exclude the VEBP from this monitoring.

The IMO considers the exclusion of the VEBP from the definition of LFAS Facility is a manifest error in the Market Rules. It should be noted that clause 7B.1.6 already extends the definition of LFAS Facility to include the VEBP, but only for the purposes of Chapter 7B.

## **Proposal**

The IMO proposes to amend the Glossary definition of LFAS Facility to include the VEBP. The IMO also proposes a number of minor amendments to related definitions and clauses to ensure they align with the extended definition.

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## **2. Explain the reason for the degree of urgency:**

The IMO considers that this Rule Change Proposal corrects a manifest error in the Market Rules. The current definition of LFAS Facility has a number of absurd implications, for example that Verve Energy should receive no payment for providing LFAS through the VEBP, and that VEBP LFAS Submission prices should not be subject to ERA monitoring. As such, the IMO considers that this proposal should be progressed using the Fast Track Rule Change Process, on the grounds 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.

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**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)**

~~7B.1.6. For the purposes of this Chapter 7B only, unless otherwise indicated, the Verve Energy Balancing Portfolio is to be treated as a single LFAS Facility and references in this Chapter 7B to an LFAS Facility are to be read as including a reference to the Verve Energy Balancing Portfolio.~~

7B.2.10. A Market Participant with an LFAS Facility, ~~and Verve Energy in respect of the Verve Energy Balancing Portfolio,~~ must ensure that any LFAS Submission for a Trading Interval in an LFAS Horizon for which LFAS Gate Closure has not occurred accurately reflects:

- (a) all information reasonably available to it;
- (b) the Market Participant's reasonable expectation of the capability of the LFAS Facility to provide the LFAS to the LFAS Market; and
- (c) the price at which the Market Participant intends to have the LFAS Facility provide LFAS.

**LFAS Downwards Price-Quantity Pair:** Means for an LFAS Facility ~~and for the Verve Energy Balancing Portfolio:~~

- (a) the specified non-Loss Factor adjusted capacity, in MW, by which a Market Participant is prepared to have its LFAS Facility, ~~or the Verve Energy Balancing Portfolio, as applicable,~~ activated downwards within a Trading Interval; and
- (b) the non-Loss Factor Adjusted Price, in \$/MW, the Market Participant wants to be paid to have that capacity available within that Trading Interval.

**LFAS Facility:** Means:

- ~~(a) a Facility that a Market Participant has indicated in Appendix 1(j)(i) of Standing Data is intended to participate in the LFAS Market; and~~
- ~~(b) either:~~
  - ~~i. for a Market Participant other than Verve Energy, each Scheduled Generator and Non-Scheduled Generator for which LFAS Standing Data has been accepted by the IMO; or~~

~~ii. each Stand Alone Facility for which LFAS Standing Data has been accepted by the IMO.~~

(a) a Scheduled Generator or a Non-Scheduled Generator registered to a Market Participant other than Verve Energy or a Stand Alone Facility for which:

i. the relevant Market Participant has indicated in Appendix 1(j)(i) of Standing Data is intended to participate in the LFAS Market; and

ii. LFAS Standing Data has been accepted by the IMO; and

(b) the Verve Energy Balancing Portfolio.

**LFAS Upwards Price-Quantity Pair:** Means for an LFAS Facility ~~and for the Verve Energy Balancing Portfolio:~~

- (a) the specified non-Loss Factor adjusted capacity, in MW, by which a Market Participant is prepared to have its LFAS Facility, ~~or the Verve Energy Balancing Portfolio, as applicable,~~ activated upwards within a Trading Interval;
- (b) the non-Loss Factor Adjusted Price, in \$/MW, the Market Participant wants to be paid to have that capacity available within that Trading Interval.

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#### **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 amendments correct a manifest error in the Market Rules and are consistent with the Wholesale Market Objectives.

Further, the IMO considers that the proposed amendments will allow the Market Rules to better address Wholesale Market Objective (c). The current definition of an LFAS Facility implies that Verve Energy should not be paid for providing LFAS through the VEBP, which clearly discriminates against Verve Energy. The IMO therefore considers that correction of the manifest error will better achieve Wholesale Market Objective (c).

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

##### **Costs:**

No costs associated have been identified with implementing these proposed changes. Likewise the IMO considers that there will be no operational impacts.

##### **Benefits:**

- Correction of a manifest error in the Market Rules.
- Ensures appropriate treatment of the VEBP relating to the provision of LFAS.