



Independent Market Operator

Amended Rule Change Notice

**Title: Least cost
determination of
ancillary service
contracts**

Ref: RC_2008_38

Standard Rule Change Process

Date: 20 February 2008

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1. THE RULE CHANGE PROPOSAL

1.1. *Extension of the First Submission Period*

In accordance with clause 2.5.10 of the Wholesale Electricity Market Rules the IMO decided to extend the timeframe to prepare the Draft Rule Change Report for this Rule Change Proposal until 12 March 2009. A notice of this extension was published under clause 2.5.12 on the IMO website on 20 February 2009.

This Rule Change Notice has been updated with the revised timelines following the notice of extension. All other parts of this document remain unchanged from the original version published on 18 December 2008.

1.2. *The Submission*

On 12 December 2008 System Management submitted a Rule Change Proposal regarding changes to clause 6.17.6 and the addition of clause 3.11.8E in the Wholesale Electricity Market Rules (Market Rules).

This Rule Change Notice is published according to Market Rule 2.5.7, which requires the IMO to publish a notice within 7 Business Days of receiving a Rule Change Proposal.

1.2.1 *Submission details*

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Date submitted:	12 December 2008
Urgency:	High
Change Proposal title:	Least cost determination of ancillary service contracts

1.3. *Details of the Proposal*

Determination of 'Least Cost'

Market Rule 3.11.8 (b) indicates that System Management may only enter into an Ancillary Services contract for Spinning Reserve or Load Following with a Participant other than Verve Energy where the contract provides a less expensive alternative to Verve Energy (**Least Cost**). While there are many issues with this mechanism, the focus of this Rule Change relates to the determination of least cost.

Whilst MR 3.11.8 (b) requires System Management to determine Least Cost, it does not indicate a mechanism by which this can be achieved. Indeed, as currently drafted the obligation requires

System Management to make certain assumptions, unassisted by a common information baseline, to determine commercial and economic outcomes for the market.

System Management proposes that Ancillary Service contracts for Spinning Reserve and Load Following be based on a proportion of Margin_Peak and Margin_Off-Peak. These values are already used to determine the remuneration for Verve Energy for provision of these ancillary services and provide that a proportion of MCAP is used for the availability payment. In order to satisfy its obligations – and to satisfy the market that a spinning reserve or load following contract is genuinely least cost – a rule change is proposed to mandate that the availability component be based on a proportion of the Margin_Peak and Margin_Off-Peak values.

Unless clause 3.11.8 (b) is altered, System Management will be unable to satisfactorily determine Least Cost, limiting the ability to competitively procure ancillary services.

Payment of energy provided under an Ancillary Service Contract

Market Rule 3.11.8 (b) indicates that System Management may only enter into an Ancillary Services contract for Spinning Reserve or Load Following with a Participant other than Verve Energy where the contract provides a less expensive alternative to Verve Energy. While there are many issues with this mechanism, the focus of this Rule Change relates to payment for energy provided under an Ancillary Service Contract.

The current Market Rules provide for the settlement of Ancillary Services based on the availability payment, whereas energy is settled separately. System Management does not propose to alter this arrangement, as it would introduce conflict with the Market Rules. Therefore, Ancillary Services Contracts will only cover the availability payment.

Verve Energy is remunerated for Spinning Reserve (which includes Load Following) via an availability payment and a payment for energy used. For Verve Energy, energy is paid for at MCAP, while energy payments for other Participant's would be at the Participant's pay-as-bid price. This price has the potential to represent a significant multiple of the MCAP price for the relevant period.

To determine whether another Participant can provide Spinning Reserve at a lower cost than Verve Energy, the energy payment must be on the same footing ie all energy must be settled at MCAP. Currently a comparison can not be made, as pay-as-bid prices can change daily.

For completeness, it is noted that as the Spinning Reserve time period finishes as detailed in MR 3.9.3, any additional energy requested after that time would be paid as a normal dispatch instruction (ie at the pay-as-bid price), assuming that the dispatch merit order necessitates calling upon that particular facility.

Proposed amendments

The intention of the proposed amendments is to resolve the above issues so as to allow for System Management to enter into an Ancillary Services contract for Spinning Reserve and Load Following, assuming that "least cost" is otherwise established.

In considering this proposal, it may be useful to note that all authorised energy payments receive MCAP, and that, when the SWIS requires System Restart, MCAP may be indeterminate. In proposing this change, System Management proposes an amendment to

rectify a minor inconsistency within clause 6.17.6(b)(ii), which currently omits a correct reference sub-clause (iA).

1.4. *The Proposal and the Wholesale Market Objectives*

This proposed Rule Change would better address objective (a) of the Market Objectives. The changes as submitted would promote the economically efficient, safe and reliable production and supply of electricity and electricity related services in the South West interconnected system.

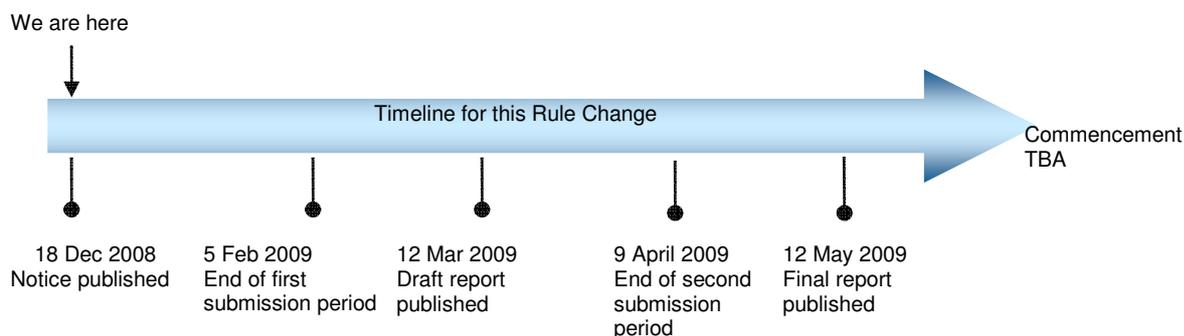
The rule change would also better address objective (b) by increasing the certainty of the application of the rules, ensuring parity between Participants and aiding economically efficient outcomes.

2. WHETHER THE PROPOSAL WILL BE PROGRESSED FURTHER

The IMO has decided to proceed with this proposal on the basis that the IMO's preliminary assessment indicated that the proposal is consistent with the Wholesale Market Objectives.

The IMO has decided to process this Rule Change Proposal using the Standard Rule Change Process, described in section 2.7 of the Market Rules.

The projected timelines for processing this proposal are:



3. CALL FOR SUBMISSIONS

The IMO is seeking submissions regarding this proposal. The submission period is six weeks from the publication date of this notice. Submissions must be delivered to the IMO by close of business on **Thursday 5 February 2009**.

The IMO prefers to receive submissions by email to marketadmin@imowa.com.au using the submission form available on the IMO website:
http://www.imowa.com.au/10_5_1_MarketRulesChangeSummary.html

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

Independent Market Operator
Attn: Manager Market Administration
PO Box 7096
Cloisters Square, Perth, WA 6850

Fax: (08) 9254 4399

4. PROPOSED AMENDING RULES

System Management proposes the following amendments to the Market Rules (~~deleted words~~, added words):

3.11.8E For the purposes of clause 3.11.8, a contract must:

- (a) not include components for the payment of energy; and
- (b) only include components related to the availability of the service based on a proportion of the values determined under clause 3.13.3.

6.17.6. The Dispatch Instruction Payment, $DIP(p,d,t)$, for Market Participant p and Trading Interval t of Trading Day d equals the sum of:

...

(b) ...
ii. if paragraph (i) or (iA) does not apply, the amount for the Registered Facility is the product of:

1. the qualifying quantity for Trading Interval t as calculated in accordance with clause 6.17.8, less the sum of the quantity indicated in the applicable Resource Plan (where for the purpose of this calculation a Loss Factor adjustment is to be applied to the quantity so that the result is measured at the Reference Node) for the Registered Facility for Trading Interval t and the Balancing Support Contract energy dispatched from the Facility in Trading Interval t as specified by System Management in accordance with clause 7.13(dA) (where for the purpose of this calculation a Loss Factor adjustment is to be applied to the quantity specified by System Management so that the result is measured at the Reference Node) and the Network Control Service Contract energy dispatched from the Facility in Trading Interval t as specified by System Management in accordance with clause 7.13(dB) (where for the purpose of this calculation a Loss Factor adjustment is to be applied to the quantity specified by System Management so that the result is measured at the Reference Node); and
- ~~2. the applicable price as defined by clause 6.17.7 less MCAP for Trading Interval t .~~
2. the price defined as:

- i. the contracted price, if the Dispatch Instruction is for the purposes of an Ancillary Services Contract for System Restart, Dispatch Support or Load Rejection.
- ii. zero, if the Dispatch Instruction is for the purposes of an Ancillary Services Contract other than for System Restart, Dispatch Support or Load Rejection, or
- iii. the applicable price as defined by clause 6.17.7 less MCAP for Trading Interval t.

5. ABOUT RULE CHANGE PROPOSALS

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

The IMO will assess the proposal and, within 5 Business Days of receiving the proposal form, will notify the proponent whether the proposal will be progressed further.

In order for the proposal to be progressed the change proposal must explain how it will enable the Market Rules to better contribute to the achievement of the Wholesale Market Objectives. The market objectives 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.

A Rule Change Proposal can be processed using a Standard Rule Change Process or a Fast Track Rule Change Process. The standard process involves a combined 10 weeks public submission period, while the fast track process involves the IMO consulting with Rule Participants who either advise the IMO that they wish to be consulted or the IMO considers have an interest in the change.