



## Rule Change Notice: Specific Transition Provisions for the 2015 Reserve Capacity Cycle (RC\_2015\_05)

This notice is given under clause 2.5.7 of the Wholesale Electricity Market Rules (Market Rules).

**Submitter:** Kate Ryan, IMO

**Date submitted:** 30 March 2015

### The Rule Change Proposal

On 13 March 2015, the IMO received a Ministerial Direction to defer most aspects<sup>1</sup> of the 2015 Reserve Capacity Cycle by 12 months in accordance with clause 4.1.32 of the Market Rules. The 2015 Reserve Capacity Cycle relates to the procurement of capacity for the 2017/18 Capacity Year.

As was the case with the deferral of the 2014 Electricity Statement of Opportunities (ESOO), as a result of the deferral of the 2015 ESOO by 12 months, the IMO proposes to introduce transitional provisions in the Market Rules to:

- undertake the annual Long Term PASA and calculate the Reserve Capacity Requirement for the 2015 Reserve Capacity Cycle in 2016; and
- use the ESOO for the 2014 Reserve Capacity Cycle (published in 2015) for the preliminary Reserve Capacity Requirement in the Request for Expressions of Interest for the 2016 Reserve Capacity Cycle,

for the purpose of satisfying its obligations with respect to the 2015 Reserve Capacity Cycle under the Market Rules.

The proposed Amending Rules in this Rule Change Proposal are equivalent to the Amending Rules in the Rule Change Proposal: Specific Transition Provisions for the 2014 Reserve Capacity Cycle (RC\_2014\_04)<sup>2</sup> as further amended by the Rule Change Proposal: Documentation of the Long Term PASA for the 2014 Reserve Capacity Cycle (RC\_2015\_04)<sup>3</sup>.

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

- the proposed amendments to the Market Rules;
- relevant references to the Market Rules and any proposed specific amendments to those clauses; and

<sup>1</sup> For the 2015 Reserve Capacity Cycle, this includes the certification process with the exception of running the 2015 Reserve Capacity Auction and the timing for which the Reserve Capacity Obligations and associated Reserve Capacity Price apply.

<sup>2</sup> Available at: [www.imowa.com.au/RC\\_2014\\_04](http://www.imowa.com.au/RC_2014_04).

<sup>3</sup> Available at: [www.imowa.com.au/RC\\_2015\\_04](http://www.imowa.com.au/RC_2015_04).

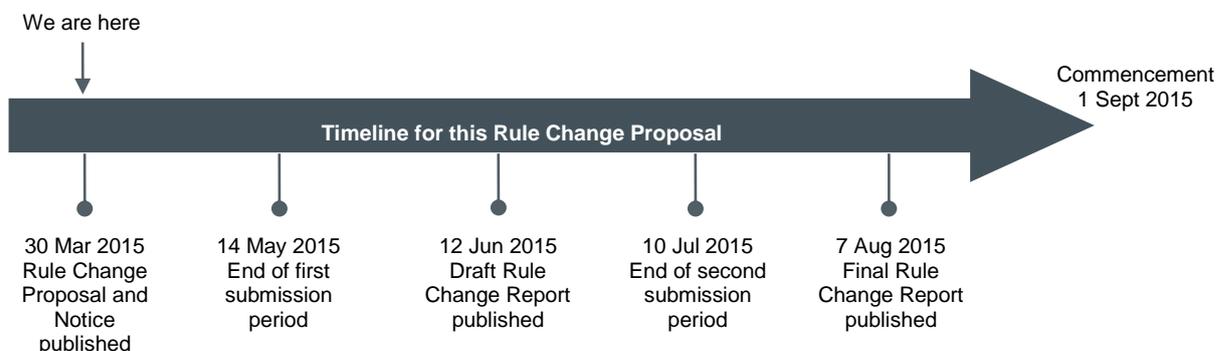
- the submitter’s description of how the proposed amendments would allow the Market Rules to better address the Wholesale Market Objectives.

## Decision to progress the Rule Change Proposal

The IMO has decided to progress this Rule Change Proposal on the basis that in section 4 of the Rule Change Proposal indicates that the proposed amendments will better achieve Wholesale Market Objectives (a), (b) and (d) by ensuring that it can provide the relevant and up to date information regarding the need for new capacity at the time of certification. Therefore, the IMO considers that stakeholders should be given an opportunity to provide submissions as part of the Standard Rule Change Process.

## Timeline

The projected timelines for progressing this proposal are:



## Call for submissions

The IMO invites interested stakeholders to make submissions on this Rule Change Proposal. The submission period is 30 Business Days from the Rule Change Notice publication date. Submissions must be delivered to the IMO by **5:00 PM on Thursday 14 May 2015**.

The IMO prefers to receive submissions by email, using the submission form available at: [www.imowa.com.au/wem-rule-changes](http://www.imowa.com.au/wem-rule-changes) sent to [market.development@imowa.com.au](mailto:market.development@imowa.com.au).

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

### Independent Market Operator

Attn: Group Manager, Development and Capacity  
 PO Box 7096  
 Cloisters Square, PERTH, WA 6850



## Rule Change Proposal: RC\_2015\_05

### Change requested by:

<b>Name</b>	Kate Ryan
<b>Organisation</b>	IMO
<b>Phone</b>	9254 4357
<b>Email</b>	kate.ryan@imowa.com.au
<b>Address</b>	Level 17, 197 St Georges Terrace, Perth WA 6000
<b>Date submitted</b>	30 March 2015
<b>Urgency</b>	Medium
<b>Rule Change Proposal title</b>	Specific Transition Provisions for the 2015 Reserve Capacity Cycle
<b>Clauses affected</b>	Heading 1.13 (new), 1.13.1 (new) and 1.13.2 (new)

### Introduction

Clause 2.5.1 of the Wholesale Electricity Market Rules (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 IMO.

The IMO prefers to receive submissions by email to [market.development@imowa.com.au](mailto:market.development@imowa.com.au) using the Rule Change Proposal form available at: <http://www.imowa.com.au/wem-rule-changes>.

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

#### **Independent Market Operator**

Attn: Group Manager, Development and Capacity  
PO Box 7096  
Cloisters Square, PERTH, WA 6850

The IMO will assess the proposal and, within five 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 proposal must explain how it will enable the Market Rules to better contribute to the achievement of the Wholesale Market Objectives.

The Wholesale 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.

## Details of the Rule Change Proposal

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

#### Background

Under clause 4.5 of the Market Rules, the IMO annually conducts the Long Term PASA (LT PASA) to determine the Reserve Capacity Target for each year of the LT PASA Study Horizon and prepare the Electricity Statement of Opportunities Report (ESOO) for each Reserve Capacity Cycle.

On 13 March 2015, the IMO received a Ministerial Direction under regulation 39 of the *Electricity Industry (Independent Market Operator) Regulations 2004* to defer most aspects<sup>1</sup> of the 2015 Reserve Capacity Cycle by 12 months, including the 2015 ESOO, in accordance with clause 4.1.32 of the Market Rules. The 2015 Reserve Capacity Cycle relates to the procurement of capacity for the 2017/18 Capacity Year. In accordance with the Ministerial Direction, the IMO published a notice of extension of the 2015 Reserve Capacity Cycle on 20 March 2015<sup>2</sup>.

As was the case with the deferral of the 2014 ESOO<sup>3</sup>, the deferral of the 2015 ESOO by 12 months requires the IMO to address two resulting issues in the Market Rules:

1. Clause 4.3.1(b) of the Market Rules requires that the Request for Expressions of Interest for a Reserve Capacity Cycle must include the preliminary Reserve Capacity Requirement (RCR) determined in accordance with clause 4.6.3 of the Market Rules. Clause 4.6.3(b) of the Market Rules specifies that the preliminary RCR is the Reserve Capacity Target as reported in the ESOO for the preceding

<sup>1</sup> For the 2015 Reserve Capacity Cycle, this includes the certification process with the exception of running the 2015 Reserve Capacity Auction and the timing for which the Reserve Capacity Obligations and associated Reserve Capacity Price apply.

<sup>2</sup> Information on the amendments to the Reserve Capacity timetable for the 2015 Reserve Capacity Cycle is available at: <http://www.imowa.com.au/reserve-capacity/reserve-capacity-timetable/reserve-capacity-timetable-overview>.

<sup>3</sup> The IMO commenced the Rule Change Proposal: Specific Transition Provisions for the 2014 Reserve Capacity Cycle (RC\_2014\_04) to address these issues as they related to the 2014 Reserve Capacity Cycle. Available at: [www.imowa.com.au/RC\\_2014\\_04](http://www.imowa.com.au/RC_2014_04).

Reserve Capacity Cycle. Compliance with these clauses currently requires that the 2015 ESOO be published prior to the publication date of the 2016 Request for Expression of Interest, being by 31 January 2016. With the deferral of the 2015 ESOO to 17 June 2016, the IMO will be unable to comply with this clause because a preliminary RCR will not be available by 31 January 2016.

2. Clause 4.5.1 and the definition of LT PASA in the Glossary of the Market Rules require the IMO to conduct the LT PASA annually. Deferral of the 2015 ESOO means that the annual LT PASA for the LT PASA Study Horizon commencing in Year 1 of the 2015 Reserve Capacity Cycle will not be completed within the 2015 calendar year, resulting in the IMO not complying with clause 4.5.1 of the Market Rules.

### Proposed Amendments

To address these issues, the IMO proposes to introduce new transitional rules which will allow the IMO to:

- undertake the 2015 LT PASA and the RCR determination in 2016; and
- use the ESOO for the 2014 Reserve Capacity Cycle (which is to be published in 2015) for the preliminary RCR to be included in the Request for Expressions of Interest for the 2016 Reserve Capacity Cycle,

for the purpose of satisfying its obligations with respect to the 2015 Reserve Capacity Cycle under the Market Rules.

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

The IMO proposes to commence the proposed Amending Rules as soon as practicable, but at least before the end of the 2015 calendar year, to ensure that the IMO can continue to satisfy its obligations under the Market Rules.

These proposed Amending Rules are equivalent to the Amending Rules to support the deferral of the 2014 ESOO in RC\_2014\_04 as further amended by the Rule Change Proposal: Documentation of the Long Term PASA for the 2014 Reserve Capacity Cycle (RC\_2015\_04)<sup>4</sup>.

## 3. Provide any specific changes to clauses of the Market Rules

[Changes to the current wording of the Market Rules are shown with ~~strikethrough~~ where words are deleted and underline where words are added]

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<sup>4</sup> Available at: [www.imowa.com.au/RC\\_2015\\_04](http://www.imowa.com.au/RC_2015_04).

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### **1.13. Specific Transition Provisions for the 2015 Reserve Capacity Cycle**

1.13.1. For the purposes of clause 4.5.1, the Long Term PASA for the 2015 Reserve Capacity Cycle is deemed to be the study conducted in accordance with clause 4.5 and published under clause 4.5.11 in the Statement of Opportunities Report published in Year 2 of the 2015 Reserve Capacity Cycle.

1.13.2. For the purposes of clauses 4.3.1(b) and 4.6.3(b), the preliminary Reserve Capacity Requirement for the 2016 Reserve Capacity Cycle is deemed to be the Reserve Capacity Target for the relevant Capacity Year as reported in the most recently published Statement of Opportunities Report.

## **4. Describe how the proposed changes would allow the Market Rules to better address the Wholesale Market Objectives**

Clause 2.4.2 of the Market Rules states 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.

The IMO considers that this Rule Change Proposal will better achieve Wholesale Market Objectives (a), (b) and (d) and is consistent with the remaining Wholesale Market Objectives.

- (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
- (d) to minimise the long-term cost of electricity supplied to customers from the South West interconnected system

The IMO notes that the proposed Amending Rules will allow the IMO to include any updated information and forecasts that become available in determining the Reserve Capacity Target for the 2017/18 Capacity Year in the LT PASA and ESOO as deferred. The IMO considers that using forecasts that better reflect the circumstances at that time will:

- provide relevant and more up to date information to Market Participants regarding the need for new capacity at the time of the certification process for the 2015 Reserve Capacity Cycle, thereby promoting economic efficiency and reliability of electricity supply; and
- reduce any ambiguity with regard to the amount of capacity required in the WEM, thereby facilitating the efficient entry of new capacity investment only if required.

Further, the IMO notes that the proposed Amending Rules will allow for the use of the ESOO for the 2014 Reserve Capacity Cycle, published in 2015, to provide the preliminary RCR to be included in the Request for Expressions of Interest for the 2016 Reserve Capacity Cycle.

The IMO considers that if the proposed amendments were not implemented, the Market Rules would be ambiguous with regard to the Reserve Capacity Target and the

quantity of capacity to be procured for the 2015 Reserve Capacity Cycle. This may impose unnecessary costs on the market because the IMO would be required under the Market Rules to procure capacity to fulfill the previously determined Reserve Capacity Target even when more relevant, up to date and potentially lower forecasts become available.

## **5. Provide any identifiable benefits and costs of the proposed changes**

### **Benefits**

The benefits of the proposed Amending Rules include the:

- (a) provision of relevant and up to date information for Market Participants to make decisions about investing in new capacity at the time of the certification process for the 2015 Reserve Capacity Cycle;
- (b) minimisation of potential unnecessary costs imposed on the market as a result of the IMO having to procure capacity to fulfil the known Reserve Capacity Target for the 2015 Reserve Capacity Cycle even when more relevant, up to date and potentially lower forecasts become available in 2016; and
- (c) provision of clarity in relation to the IMO's obligations and to ensure its actions are consistent with and result in the most efficient procurement of capacity in light of the deferral of most aspects of the 2015 Reserve Capacity Cycle under the Ministerial Direction.

### **Costs**

The IMO will incur minor administrative costs to facilitate the development and progression of this Rule Change Proposal. These costs can be accommodated within the IMO's existing budget.

## **6. Provide any considerations associated with the implementation of the proposed changes**

It should be noted that, while the IMO will not be publishing the ESOO for the 2015 Reserve Capacity Cycle, in June 2015 it will publish the ESOO for the 2014 Reserve Capacity Cycle which was deferred for 12 months as a result of the Ministerial Direction received on 29 April 2014. The IMO intends to include demand and energy forecasts for the 10-year outlook period from 2015 in this publication but not include the Reserve Capacity Requirement for the 2015 Reserve Capacity Cycle.

This Rule Change Proposal does not propose to amend any Protected Provisions, Reviewable Decisions or civil penalty provisions. The proposed new Amending Rules are not proposed to be Protected Provisions, Reviewable Decisions or civil penalty provisions.

The IMO does not consider that there are any issues with the practicality of implementing the proposed changes.

The IMO notes that there are no Market Procedures that require updating as a result of this Rule Change Proposal.