

Rule Change Notice: Reserve Capacity Mechanism – Transitional Rules (RC_2017_07)

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

Submitter: Martin Maticka, Australian Energy Market Operator

Date submitted: 17 July 2017

The Rule Change Proposal

The Wholesale Electricity Market Amending Rules 2016 (2016 WEM Amending Rules) were made by the Minister for Energy under regulation 7(4) of the *Electricity Industry (Wholesale Electricity Market) Regulations 2004* and published in the Western Australian Government Gazette on 31 May 2016.

The amendments implemented several reforms to the Reserve Capacity Mechanism and the transfer of System Management functions to the Australian Energy Market Operator (AEMO).

The amending rules in Schedule B, Part 3 of the 2016 WEM Amending Rules (RCM Amendments) make various changes to the operation of the Reserve Capacity Mechanism and the dispatch of Demand Side Programmes. The 2016 WEM Amending Rules do not however provide any transitional provisions to facilitate the changeover from the current arrangements to the new. This will result, for example, in AEMO being in technical breach of the Market Rules if it performs certain tasks before 8:00 AM on 1 October 2017 (when the RCM Amendments commence) that are required to ensure the market operates as intended from 1 October 2017 onwards.

In this Rule Change Proposal AEMO seeks to address the problem by implementing transitional provisions to clarify that:

- before 8:00 AM on 1 October 2017, Rule Participants must perform all the functions necessary to ensure the successful operation of the new arrangements commencing at that time, even when those functions are not yet specified in the Market Rules because the RCM Amendments have not commenced;
- Rule Participants are not required to perform functions under the current Market Rules on the Scheduling Day (30 September 2017) for the 1 October 2017 Trading Day or subsequent Trading Days where those functions are not required due to the commencement of the RCM Amendments; and

- after the commencement of the RCM Amendments, Rule Participants are still required to perform obligations that arise under the current Market Rules in respect of Trading Days that occurred before that time.

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
- 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 Rule Change Panel has decided to progress this Rule Change Proposal on the basis that its preliminary assessment indicates that the proposal is consistent with the Wholesale Market Objectives.

Timeline

The Rule Change Panel has decided to progress this Rule Change Proposal using the Fast Track Rule Change Process, described in section 2.6 of the Market Rules, on the grounds that the proposed changes are required to correct a manifest error and therefore the proposal satisfies the criterion in clause 2.5.9(b) of the Market Rules.

2.5.9. *The Rule Change Panel 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.*

The Rule Change Panel agrees that the lack of transitional provisions constitutes a manifest error as it creates a need for AEMO to breach the Market Rules to ensure the workable implementation of the RCM Amendments.

The projected timelines for progressing this proposal are:



Call for submissions

Any Rule Participant wishing to be consulted regarding this Rule Change Proposal is invited to notify the Rule Change Panel within 5 Business Days of the Rule Change Notice publication date (**2 August 2017**).

The consultation period is 15 Business Days from the Rule Change Notice publication date. Submissions must be delivered to the RCP Secretariat by **5:00 PM on Wednesday, 16 August 2017**.

The Rule Change Panel prefers to receive submissions by email, using the submission form available at: <https://www.erawa.com.au/rule-change-panel/make-a-rule-change-submission> sent to rcp.secretariat@rcpwa.com.au.

Submissions may also be sent to the Rule Change Panel by post, addressed to:

Rule Change Panel

Attn: Executive Officer
C/o Economic Regulation Authority
PO Box 8469
PERTH BC WA 6849

Wholesale Electricity Market Rule Change Proposal

Rule Change Proposal ID: RC_2017_07
Date received: 17 July 2017

Change requested by:

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|------------------------------------|---|
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| Organisation: | Australian Energy Market Operator |
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| Date submitted: | 17 July 2017 |
| Urgency: | 3 - High |
| Rule Change Proposal title: | Reserve Capacity Mechanism – Transitional Rules |
| Market Rule(s) affected: | New section 1.24 |

Introduction

Clause 2.5.1 of the Wholesale Electricity Market (WEM) Rules (Market Rules) provides that any person may make a Rule Change Proposal by completing a Rule Change Proposal form that must be submitted to the Rule Change Panel.

This Rule Change Proposal can be sent by:

Email to: rcp.secretariat@rcpwa.com.au

Post to: Rule Change Panel
 Attn: Executive Officer
 C/o Economic Regulation Authority
 PO Box 8469
 PERTH BC WA 6849

The Rule Change Panel 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 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 Rule Change

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

Following approval by the previous Minister for Energy, the Public Utilities Office progressed amendments to the WEM Rules through gazettal of the Wholesale Electricity Market Amending Rules 2016 made under regulation 7(4) of the Electricity Industry (Wholesale Electricity Market) Regulations 2004 (**2016 WEM Amending Rules**) on 31 May 2016.

The amendments implemented transitional reforms to the Reserve Capacity Mechanism and the transfer of System Management functions from Western Power to the Australian Energy Market Operator (**AEMO**).

AEMO has subsequently identified a manifest error in Schedule B, Part 3 of the 2016 WEM Amending Rules. Item 4 of the 2016 WEM Amending Rules provides that the amending rules set out in Schedule B, Part 3 (**Amending Rules**) are to commence at 8:00 am (WST) on 1 October 2017. However, the 2016 WEM Amending Rules provide no transitional provisions in relation to obligations in the Amending Rules that require tasks to be performed prior to the Amending Rules commencement. This will result in AEMO being in technical breach of the WEM Rules when it performs these tasks prior to this date.

Specifically, the proposed amendments outlined in this Rule Change Proposal seek to introduce three transitional provisions in the WEM Rules which clarify that:

- before 1 October 2017, Rule Participants are required to perform the following obligations (notwithstanding that the current WEM Rules are in force) that arise under the Amending Rules (see new clause 1.24.2 in section 3 of this Rule Change Proposal);
 - Market Participants to provide Standing Data required to determine the Non-Balancing Dispatch Merit Order (**NBDMO**) for the 1 October 2017 Trading Day prior to 30 September 2017, under clause 2.34 of the WEM Rules;

- AEMO to calculate the Reserve Capacity Obligation Quantity (**RCOQ**) for each Facility for the 1 October 2017 Trading Day on 30 September 2017, under clause 4.12 of the WEM Rules;
 - AEMO to calculate the Individual Reserve Capacity Requirement (**IRCR**) for each Market Customer for the October 2017 Trading Month in September 2017, under clause 4.28.8 of the WEM Rules;
 - AEMO to calculate the NBDMO for the 1 October 2017 Trading Day on 30 September 2017, under clause 6.12 of the WEM Rules;
 - System Management to issue Dispatch Instructions for the 1 October 2017 Trading Day on 30 September 2017, under Chapter 7 of the WEM Rules;
 - System Management to issue Dispatch Advisories for events expected to occur on the 1 October 2017 Trading Day on 30 September 2017 under clause 7.11 of the WEM Rules; and
 - AEMO to calculate the Relevant Demand for each Demand Side Programme for the 1 October 2017 Trading Day on 30 September 2017, under Appendix 10.;
- because Rule Participants are required to perform the above obligations under the Amending Rules, they are not required to perform the same obligations under the current WEM Rules on the Scheduling Day (30 September 2017) relating to the 1 October 2017 Trading Day (see new clause 1.24.3 in section 3 of this Rule Change Proposal); and
 - after 1 October 2017, Rule Participants are required to perform the following obligations (notwithstanding the Amending Rules will be in force) that arise under the current WEM Rules in respect of Trading Days that occurred up to 30 September 2017 (see new clause 1.24.4 in section 3 of this Rule Change Proposal):
 - administration of the Market under Chapter 2. Actions that occurred prior to 1 October 2017 are to be enforced and administered using the WEM Rules that were in force as at that date;
 - AEMO to calculate the RCOQ under clause 4.12. Any update after 1 October 2017 to the RCOQ in respect of a Trading Day prior to 1 October 2017 should occur under the current WEM Rules;
 - Dispatch under Chapter 7. Obligations, such as those relating to the preparation of data after 1 October 2017, in respect of a Trading Day prior to 1 October 2017, should occur under the current WEM Rules;
 - settlement under Chapter 9. Obligations, such as adjustments made after 1 October 2017 to settlement data, in respect of a Trading Day prior to 1 October 2017, should occur under the current WEM Rules; and
 - treatment of information under Chapter 10. Obligations, such as the publication of data after 1 October 2017, in respect of a Trading Day prior to 1 October 2017, should occur under the current WEM Rules.

2. Explain the reason for the degree of urgency:

The proposed amendments in this Rule Change Proposal correct a manifest error by inserting transitional provisions to ensure that AEMO is able to fulfil its obligations under the WEM. It is noted that this Rule Change Proposal does not modify or introduce any new concepts or obligations into the Market Rules.

In absence of these proposed amendments, AEMO will be in technical breach of the Market Rules in relation to calculations defined in Section 1.

In addition, the proposed amendments ensure the compliant and reliable operation of the WEM by clarifying Rule Participants' obligations introduced in the 2016 WEM Amending Rules that are required to be performed:

- prior to Trading Day 1 October 2017 (under the Amending Rules);
- prior to Trading Day 1 October 2017 (under the current WEM Rules); and
- post 1 October 2017 in respect of Trading Days up to 1 October 2017 (under the current WEM Rules). (see section 1).

Due to the tight timeframes, the Standard Rule Change Process will likely extend beyond when the proposed amendments are required to be in place.

On this basis, AEMO considers the proposed amendments meet the criteria set out in clause 2.5.9 (b) and (c) of the WEM Rules and, as such, proposes to have this Rule Change Proposal under the Fast Track Rule Change Process described in section 2.6 of the Market Rules.

Clause 2.5.9 states:

The Rule Change Panel 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.*

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

1.24. Specific Transition Provisions – 2017 Capacity Year

1.24.1. In this section 1.24:

RCM Amendments: Means the amending rules in Schedule B, Part 3 of the Wholesale Electricity Market Amending Rules 2016 made under regulation 7(4) of

the Electricity Industry (Wholesale Electricity Market) Regulations 2004, gazetted on 31 May 2016.

RCM Amendments Commencement Day: Means the Trading Day commencing at 8:00 AM on 1 October 2017.

Pre-Amended Rules: Means the Market Rules as in force immediately before the RCM Amendments come into effect.

Post-Amended Rules: Means the Market Rules as in force immediately after the RCM Amendments come into effect.

1.24.2. Before 8:00 AM on the RCM Amendments Commencement Day, notwithstanding that the Pre-Amended Rules continue to apply, each Rule Participant must perform all obligations imposed on that Rule Participant under the Post-Amended Rules, in relation to the RCM Amendments Commencement Day and subsequent Trading Days, that, if the Post-Amended Rules were in force, the Rule Participant would have been required to perform under the Post-Amended Rules. This includes, but is not limited to, obligations relating to:

- (a) updated Standing Data under section 2.34;
- (b) Reserve Capacity Obligation Quantity under section 4.12;
- (c) Individual Reserve Capacity Requirement under clause 4.28.8;
- (d) a Non-Balancing Dispatch Merit Order under section 6.12;
- (e) a Dispatch Instruction under Chapter 7;
- (f) a Dispatch Advisory under section 7.11; and
- (g) Relevant Demand under Appendix 10.

1.24.3. On the Scheduling Day relating to the RCM Amendments Commencement Day, notwithstanding that the Pre-Amended Rules continue to apply, Rule Participants are not required to perform obligations under the following Pre-Amended Rules:

- (a) updated Standing Data under section 2.34;
- (b) Reserve Capacity Obligation Quantity under section 4.12;
- (c) Individual Reserve Capacity Requirement under clause 4.28.8;
- (d) a Non-Balancing Dispatch Merit Order under section 6.12;
- (e) dispatch under section 7.6;
- (f) Dispatch Instructions under sections 7.7 and 7.8; and
- (g) Relevant Demand under Appendix 10,

but only to the extent that these obligations relate to the Trading Day that is also the RCM Amendments Commencement Day or subsequent Trading Days.

1.24.4. After 8:00 AM on the RCM Amendments Commencement Day, notwithstanding that the Post-Amended Rules apply, each Rule Participant must perform all obligations imposed on that Rule Participant under the Pre-Amended Rules,

arising in relation to each Trading Day (or part of a Trading Day) up to but excluding the RCM Amendments Commencement Day, that, if the Pre-Amended Rules were in force, the Rule Participant would have been required to perform under the Pre-Amended Rules. This includes, but is not limited to, obligations relating to:

- (a) administration of the market under Chapter 2;
- (b) Reserve Capacity Obligation Quantity under section 4.12;
- (c) dispatch under Chapter 7;
- (d) settlement under Chapter 9; and
- (e) treatment of information under Chapter 10.

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

The proposed amendments seek to clarify the intent of the reforms introduced in the Order and to ensure consistency in the drafting of the WEM Rules. AEMO considers that the WEM Rules effective 1 October 2017 are intended to impact all calculations and processes applicable for Trading Day 1 October 2017 onwards, irrespective of when the calculations are performed.

The proposed amendments will better achieve the Wholesale Market Objectives (a) and (d) by removing:

- ambiguity around Rule Participant obligations effective from 1 October 2017; and
- compliance costs in absence of the proposed amendments.

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

Costs:

No costs associated with implementing these proposed changes to AEMO or Market Participant systems have been identified.

Benefits:

The proposed changes will:

- improve the clarity of the WEM Rules by introducing transitional provisions that will ensure that the WEM Rules function as intended; and
 - remove costs associated in the administration of non-compliance breaches incurred by all Rule Participants.
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