

Final Rule Change Report:
Reserve Capacity Mechanism - Transitional Rules
(RC_2017_07)

Fast Track Rule Change Process

23 August 2017

Executive Summary

On 17 July 2017, the Australian Energy Market Operator (AEMO) submitted a Rule Change Proposal to introduce transitional provisions for the 1 October 2017 changes to the Reserve Capacity Mechanism arising from the commencement of the amending rules in Schedule B, Part 3 of the *Wholesale Electricity Market Rules Amending Rules 2016*.

The Market Advisory Committee (MAC) discussed the proposal (as a Pre Rule Change Proposal) at the 12 July 2017 MAC meeting and supported its progression under the Fast Track Rule Change Process.

The Rule Change Notice for the proposal was published on 26 July 2017. No submissions were received during the consultation period, which closed on 16 August 2017.

The Rule Change Panel has made some additional changes to the proposed Amending Rules to improve the clarity of the drafting and ensure that the transitional provisions cover all the relevant obligations.

The Rule Change Panel considers that the proposed amendments, as modified after the consultation period, correct a manifest error in the Market Rules and are consistent with the Wholesale Market Objectives.

The Rule Change Panel has not identified any costs or practicality issues associated with the implementation of this proposal.

The Rule Change Panel's decision is to accept the Rule Change Proposal as modified following the consultation period. The Amending Rules will commence at **8:00 AM on 1 September 2017**.

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1. Rule Change Proposal and Timeline

On 17 July 2017, the Australian Energy Market Operator (AEMO) submitted a Rule Change Proposal to introduce transitional provisions for the 1 October 2017 changes to the Reserve Capacity Mechanism arising from the commencement of the amending rules in Schedule B, Part 3 of the *Wholesale Electricity Market Rules Amending Rules 2016*.

This proposal is being processed using the Fast Track Rule Change Process, described in section 2.6 of the Market Rules.

The timelines for progressing this proposal are:



The Rule Change Panel's final decision is to accept the Rule Change Proposal as modified following the consultation period. The detailed reasons for the Rule Change Panel's decision are set out in section 5 of this report.

All documents related to this Rule Change Proposal can be found on the Rule Change Panel's website: <https://www.erawa.com.au/rule-change-panel>.

2. Proposed Amendments

2.1 The Rule Change Proposal

AEMO's Rule Change Proposal seeks to address a manifest error in the Market Rules.

The *Wholesale Electricity Market Rules 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 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.

AEMO proposed 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.

For full details of the Rule Change Proposal please refer to the Rule Change Panel's website.

2.2 The Rule Change Panel's Initial Assessment of the Proposal

The Rule Change Panel decided to progress the Rule Change Proposal on the basis that its preliminary assessment indicated that the proposal is consistent with the Wholesale Market Objectives.

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

3. Consultation

3.1 The Market Advisory Committee

AEMO presented a Pre Rule Change Proposal to the 12 July 2017 meeting of the Market Advisory Committee (MAC). The following issues were discussed.

- Mr Ben Williams noted that several recent rule changes included similar transitional clauses and asked whether there might be a way to provide a more generic mechanism in the Market Rules to support these transitions. There was some discussion about the feasibility and potential benefits of implementing more generic provisions to manage rule change transitions.
- Mr Williams asked why certain chapter references were included in new proposed clause 1.22.4 (clause 1.24.4 in the submitted Rule Change Proposal). Mr Mark Katsikandarakis replied that the provisions were derived from similar provisions used to support the implementation of the Balancing Market, and while some of the specific references might not be strictly necessary the list provided flexibility in case some aspect of the transition was overlooked.
- Mr Peter Huxtable suggested the words “8:00 AM on” were not required in clause 1.22.2 (clause 1.24.2 in the submitted Rule Change Proposal) as the definition of RCM Amendments Commencement Day indicated that it was a Trading Day and so began at 8:00 AM. *(Note: the Rule Change Panel considers that while these words are not strictly necessary in clause 1.24.2 their inclusion may assist a reader to better understand the provisions, as it results in the same terminology being used for the cutover time throughout the section.)*

The MAC supported AEMO’s recommendation to progress the proposal using the Fast Track Rule Change Process, on the basis that it corrected a manifest error in the Market Rules.

3.2 Submissions Received During the Consultation Period

The consultation period for this Rule Change Proposal was held between 26 July 2017 and 16 August 2017. No submissions were received during the consultation period.

3.3 Public Forums and Workshops

No public forums or workshops were held in regard to this Rule Change Proposal.

4. The Rule Change Panel’s Final Assessment

In preparing its Final Rule Change Report, the Rule Change Panel must assess the Rule Change Proposal in light of clauses 2.4.2 and 2.4.3 of the Market Rules. Clause 2.4.2 outlines that the Rule Change Panel “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”.

Additionally, clause 2.4.3 states that, when deciding whether to make Amending Rules, the Rule Change Panel must have regard to the following:

- any applicable statement of policy principles the Minister has issued to the Rule Change Panel under clause 2.5.2 of the Market Rules;
- the practicality and cost of implementing the proposal;

- the views expressed in submissions and by the MAC; and
- any technical studies that the Rule Change Panel considers necessary to assist in assessing the Rule Change Proposal.

The Rule Change Panel notes that there has not been any applicable statement of policy principles from the Minister in respect of this Rule Change Proposal nor has it commissioned a technical review in respect of this Rule Change Proposal.

No submissions were received during the consultation period. A summary of the views expressed by the MAC is available in section 3 of this report.

The Rule Change Panel's assessment is outlined in the following sections.

4.1 Additional Amendments to the Amending Rules

Following the consultation period the Rule Change Panel made some additional changes to the proposed Amending Rules to improve the clarity and effectiveness of the transitional provisions.

- The definition of "RCM Amendments" was modified to use the standard Market Rules terms for the *Electricity Industry (Wholesale Electricity Market) Regulations 2004* and the Western Australian Government Gazette.
- The existing defined terms "Pre-Amended Rules" and "Post-Amended Rules" were removed from the Glossary to avoid any ambiguity about their meanings in different sections of the Market Rules. The defined terms in the Glossary refer to section 1.10 of the Market Rules, which provided the transitional provisions for the implementation of the Balancing Market. Under the current Market Rules the defined terms are only used in section 1.10 and are also defined in that section. Removing the defined terms from the Glossary allows them to be used in the new section 1.24 with a different meaning from that in section 1.10.
- Proposed new clause 1.24.2 lists obligations under the Post-Amended Rules that will apply to Rule Participants before the RCM Amendments Commencement Day if they relate to a Trading Interval on or after the RCM Amendments Commencement Day. Clause 1.24.2 was amended to:
 - refer to obligations related to Relevant Demand by reference to clause 4.26.2CA (which sets out the full definition) instead of Appendix 10; and
 - include obligations that are related to Operating Instructions.
- Clause 1.24.3 was replaced with two new clauses, 1.24.3 and 1.24.4, to address concerns identified by the Rule Change Panel that some of the Pre-Amended Rules obligations from which Rule Participants should be exempted (e.g. calculating Individual Reserve Capacity Requirements for October 2017) are performed before the Scheduling Day for 1 October 2017.

The new clause 1.24.3 clarifies that to the extent that there is an obligation to perform the same function twice (under Pre and Post-Amended Rules) the Rule Participant only has to perform the relevant obligation once.

New clause 1.24.4 clarifies that if a Rule Participant is required to do something under the Pre-Amended Rules that relates to a Trading Day post commencement (that they would not be required to do) then they are not required to do that thing.

- Proposed new clause 1.24.5 (previously clause 1.24.4) outlines which obligations under the Pre-Amended Rules still apply to Market Participants after the RCM Amendments Commencement Day if they relate to a Trading Interval before the RCM Amendments Commencement Day. Clause 1.24.5 was amended to include all obligations under Chapter 4 of the Market Rules, not only those in section 4.12.
- Minor amendments were made to the section title and the definition of “RCM Amendments Commencement Day” to improve their clarity.

The additional changes to the proposed Amending Rules presented in the Rule Change Proposal are detailed in Appendix A of this report.

4.2 Wholesale Market Objectives

The Rule Change Panel considers that the proposed amendments will correct a manifest error in the Market Rules and are consistent with the Wholesale Market Objectives.

4.3 Practicality and Cost of Implementation

4.3.1 Cost

AEMO has not identified any additional costs arising from the implementation of the proposed amendments, including the modifications made after the consultation period.

The proposed amendments will not result in any additional costs for Market Participants.

4.3.2 Practicality

The Rule Change Panel has not identified any issues with the practicality of implementing the proposed changes.

5. The Rule Change Panel’s Decision

The Rule Change Panel’s final decision is to accept the Rule Change Proposal as modified following the consultation period.

5.1 Reason for the Rule Change Panel’s Decision

The Rule Change Panel has made its decision on the basis that the Amending Rules:

- correct a manifest error in the Market Rules;
- are consistent with the Wholesale Market Objectives;
- are supported by the MAC; and
- create no cost or practicality issues.

Additional detail outlining the analysis behind the Rule Change Panel’s decision is outlined in section 4 of this report.

6. Amending Rules

6.1 Commencement

The amendments to the Market Rules resulting from this Rule Change Proposal will commence at 8:00 AM on 1 September 2017.

6.2 Amending Rules

The Rule Change Panel has determined to implement the following Amending Rules (~~deleted text~~, added text):

1.24. Specific Transition Provisions for the 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 WEM Regulations, published in the Government Gazette on 31 May 2016.

RCM Amendments Commencement Day: Means the Trading Day commencing at 8:00 AM on 1 October 2017, the date and time the RCM Amendments are to commence.

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) Relevant Demand under clause 4.26.2CA;
- (d) Individual Reserve Capacity Requirements under clause 4.28.8;
- (e) a Non-Balancing Dispatch Merit Order under section 6.12;
- (f) a Dispatch Instruction or Operating Instruction under Chapter 7; and
- (g) a Dispatch Advisory under section 7.11.

1.24.3. If before 8:00 AM on the RCM Amendments Commencement Day, notwithstanding that the Pre-Amended Rules continue to apply, a Rule Participant performs an

obligation under the Post-Amended Rules under clause 1.24.2, then to the extent that the obligation is performed, the Rule Participant is not required to perform any equivalent obligation under the Pre-Amended Rules to the extent that these obligations relate to the RCM Amendments Commencement Day or subsequent Trading Days.

1.24.4. If before 8:00 AM on the RCM Amendments Commencement Day, notwithstanding that the Pre-Amended Rules continue to apply, a Rule Participant is required to perform an obligation that relates to the RCM Amendments Commencement Day or subsequent Trading Days that it will not be required to perform under the Post-Amended Rules, the Rule Participant is not required to perform the obligation to the extent that it relates to the RCM Amendments Commencement Day or subsequent Trading Days and to the extent that the obligation will not apply under the Post-Amended Rules.

1.24.5. 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) administration of the Reserve Capacity Mechanism under Chapter 4;
- (c) dispatch under Chapter 7;
- (d) settlement under Chapter 9; and
- (e) treatment of information under Chapter 10.

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11 Glossary

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Pre-Amended Rules: Has the meaning given in clause 1.10.1.

Post-Amended Rules: Has the meaning given in clause 1.10.1.

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Appendix A. Further Amendments to the Proposed Amending Rules

The Rule Change Panel made some amendments to the proposed Amending Rules following the consultation period. These changes are as follows (~~deleted text~~, added text):

1.24. Specific Transition ~~Provisions~~—Provisions for the 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) WEM Regulations 2004~~, gazetted/published in the Government Gazette on 31 May 2016.

RCM Amendments Commencement Day: Means the Trading Day commencing at 8:00 AM on 1 October 2017, the date and time the RCM Amendments are to commence.

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) Relevant Demand under clause 4.26.2CA;
- ~~(e)~~(d) Individual Reserve Capacity Requirements under clause 4.28.8;
- ~~(d)~~(e) a Non-Balancing Dispatch Merit Order under section 6.12;
- ~~(e)~~(f) a Dispatch Instruction or Operating Instruction under Chapter 7; and
- ~~(f)~~(g) 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.~~

1.24.3. If before 8:00 AM on the RCM Amendments Commencement Day, notwithstanding that the Pre-Amended Rules continue to apply, a Rule Participant performs an obligation under the Post-Amended Rules under clause 1.24.2, then to the extent that the obligation is performed, the Rule Participant is not required to perform any equivalent obligation under the Pre-Amended Rules to the extent that these obligations relate to the RCM Amendments Commencement Day or subsequent Trading Days.

1.24.4. If before 8:00 AM on the RCM Amendments Commencement Day, notwithstanding that the Pre-Amended Rules continue to apply, a Rule Participant is required to perform an obligation that relates to the RCM Amendments Commencement Day or subsequent Trading Days that it will not be required to perform under the Post-Amended Rules, the Rule Participant is not required to perform the obligation to the extent that it relates to the RCM Amendments Commencement Day or subsequent Trading Days and to the extent that the obligation will not apply under the Post-Amended Rules.

4.24.4.1.24.5. 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) ~~administration of the Reserve Capacity Mechanism Obligation Quantity~~ under ~~Chapter 4~~ section 4.12;
- (c) dispatch under Chapter 7;
- (d) settlement under Chapter 9; and
- (e) treatment of information under Chapter 10.

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11 Glossary

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~~**Pre-Amended Rules:** Has the meaning given in clause 1.10.1.~~

~~**Post-Amended Rules:** Has the meaning given in clause 1.10.1.~~

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