

## **Rule Change Notice: K and U parameters in Relevant Level Methodology for 2018 Reserve Capacity Cycle (RC\_2018\_02)**

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

**Submitter:** Martin Maticka, Australian Energy Market Operator (**AEMO**)

**Date submitted:** 19 February 2018

### **The Rule Change Proposal**

Under clause 4.11.2(b) of the Market Rules, the **AEMO** must assign a quantity of Certified Reserve Capacity to a Facility (usually a Non-Scheduled Generator). In general circumstances, but subject to a number of other clauses, the quantity of Certified Reserve Capacity is equal to the Relevant Level; which is defined in the Relevant Level Methodology in Appendix 9 of the Market Rules.

Within Appendix 9, Step 17 requires AEMO to calculate a Facility Adjustment Factor for each Candidate Facility, which is a function of two parameters, K and U. For the 2015 Reserve Capacity Cycle and onwards, Step 17 of Appendix 9 requires that the values of these parameters must be determined in accordance with clause 4.11.3C.

Clause 4.11.3C requires the Relevant Level Methodology to be reviewed every three years. The last review was completed in 2014 and included a determination of the K and U values for the 2015, 2016 and 2017 Reserve Capacity Cycles.

In July 2016, the Minister transferred responsibility for the Relevant Level Methodology review from the Independent Market Operator to the Economic Regulation Authority (**ERA**). Under the transitional provisions in clause 1.17.5(d) of the Market Rules, the deadline for conducting ERA's first review under clause 4.11.3C was deferred from 1 April 2018 to 1 April 2019. This means that the review, which is to determine K and U values for the 2018, 2019 and 2020 Reserve Capacity Cycles, will not be completed in time for the K and U factors to be used for the 2018 Reserve Capacity Cycle.

In this Rule Change Proposal, AEMO seeks to amend the transitional provisions in clause 1.17.5 to:

- allow the K and U parameters determined for the 2017 Reserve Capacity Cycle to be carried over and used for the 2018 Reserve Capacity Cycle; and
- change the coverage period of the next Relevant Level Methodology review required under clause 4.11.3C to only cover the 2019 and 2020 Reserve Capacity Cycles instead of the three yearly review.

AEMO also seeks to amend Step 17 of Appendix 9 to correct two manifest errors as follows:

- it is the ERA that determines the K and U parameters for the future Reserve Capacity Cycles, not AEMO; and
- the references in the tables to clause 4.11.3B of the Market Rules should refer to 4.11.3C.

The Rule Change Proposal, which is attached to this notice, gives complete information about:

- the proposed amendments to the Market Rules;
- the relevant references to the Market Rules and the specific proposed amendments to those clauses; and
- the submitter’s description of how the proposed amendments will 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 proposed Amending Rules are consistent with the Wholesale Market Objectives.

### Timeline

This Rule Change Proposal will be progressed 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 minor and manifest errors or are of minor or procedural nature; so the proposal satisfies the criteria in clauses 2.5.9(a) and 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 projected timeline for progressing this proposal is:



### 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 March 2018**).

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 Thursday, 15 March 2018**.

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](mailto: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\_2018\_02  
**Date received:** 19 February 2018

### Change requested by:

<b>Name:</b>	Martin Maticka
<b>Phone:</b>	+61 7 3347 3059
<b>Email:</b>	Martin.maticka@aemo.com.au
<b>Organisation:</b>	Australian Energy Market Operator
<b>Address:</b>	PO Box 7096, Cloisters Square, Perth, WA, 6850
<b>Date submitted:</b>	19 February 2018
<b>Urgency:</b>	3-high – Fast Track Rule Change Process
<b>Rule Change Proposal title:</b>	K and U parameters in Relevant Level Methodology for 2018 Reserve Capacity Cycle
<b>Market Rule(s) affected:</b>	1.17.5, Step 17 of Appendix 9

### 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](mailto: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.

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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 rule change:

#### Background

Clause 4.10.1(i) of the Wholesale Electricity Market Rules (**Market Rules**) allows a Certified Reserve Capacity applicant to nominate the use of the clause 4.11.2(b) methodology, instead of the clause 4.11.1(a) methodology, in assigning Certified Reserve Capacity<sup>1</sup> to a Scheduled Generator or a Non-Scheduled Generator.

Clause 4.11.2(b) of the Market Rules requires AEMO (unless it rejects the nomination under clause 4.11.2(a) and subject to other exceptions) to assign a quantity of Certified Reserve Capacity to the relevant Facility for the Reserve Capacity Cycle equal to the Relevant Level as determined in accordance with the Relevant Level Methodology in Appendix 9 of the Market Rules.

Step 17 of Appendix 9 of the Market Rules requires AEMO to calculate a Facility Adjustment Factor for each Candidate Facility, which is a function of two parameters, K and U. For the 2015 Reserve Capacity Cycle and onwards, step 17 of Appendix 9 requires that the values of these parameters must be determined in accordance with clause 4.11.3C of the Market Rules.<sup>2</sup>

Clause 4.11.3C of the Market Rules requires the Relevant Level Methodology to be reviewed every three years. The last review of the Relevant Level Methodology under clause 4.11.3C was completed in 2014, and included a determination of the K and U values for the 2015, 2016

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<sup>1</sup> This Rule Change Proposal addresses an issue in relation to the 2018 Reserve Capacity Cycle. The reference to Conditional Certified Reserve Capacity in clause 4.10.1(i) (for future Reserve Capacity Cycles) is not presently relevant.

<sup>2</sup> AEMO considers that there are two errors in step 17 of Appendix 9 of the Market Rules. Firstly, the clause reference should be clause 4.11.3C instead of clause 4.11.3B. Secondly, under clause 4.11.3C, the values are determined by the ERA, not AEMO. This Rule Change Proposal includes drafting to correct these errors.

and 2017 Reserve Capacity Cycles.<sup>3</sup> The next review under clause 4.11.3C was due to be completed by 1 April 2018, and must:

1. examine the effectiveness of the Relevant Level Methodology in meeting the Wholesale Market Objectives; and
2. determine the values of the parameters K and U to be applied for the 2018, 2019 and 2020 Reserve Capacity Cycles.

As part of rule changes that commenced in July 2016, responsibility for completing the review of the Relevant Level Methodology was transferred to the Economic Regulation Authority (ERA). At the same time, clause 1.17.5(d) of the Market Rules commenced, which defers the deadline for completion of the ERA's first review of the Relevant Level Methodology under clause 4.11.3C (for the 2018, 2019 and 2020 Reserve Capacity Cycles) from 1 April 2018 to 1 April 2019. The effect of clause 1.17.5(d) is that the K and U values for the 2018 Reserve Capacity Cycle will not be determined, and cannot be applied for the purposes of step 17 of Appendix 9, until the ERA completes its review by 1 April 2019. As a result, Certified Reserve Capacity applicants will effectively be deprived of their right under clause 4.10.1(i) to nominate the use of the clause 4.11.2(b) methodology for the 2018 Reserve Capacity Cycle.

### **Issue and market impact**

AEMO has consulted with the ERA, which has confirmed that it intends to review the Relevant Level Methodology in accordance with the timing in clause 1.17.5(d) of the Market Rules (i.e. by 1 April 2019 and not 1 April 2018). Consequently, AEMO will not have K and U values for the 2018 Reserve Capacity Cycle.

If K and U values for the 2018 Reserve Capacity Cycle are unavailable, AEMO will be unable to use the clause 4.11.2(b) methodology (and the Relevant Level Methodology) to assign a quantity of Certified Reserve Capacity to Facilities. AEMO considers that the lack of transitional provisions for the K and U values for the 2018 Reserve Capacity Cycle is a manifest error in the Market Rules.

AEMO proposes that the transitional provisions in clause 1.17.5 of the Market Rules be amended to:

1. allow the K and U values determined for the 2017 Reserve Capacity Cycle to be carried over for the 2018 Reserve Capacity Cycle; and
2. change the coverage period of the next review required under clause 4.11.3C of the Market Rules to only cover the 2019 and 2020 Reserve Capacity Cycles.

AEMO consulted with members of the Market Advisory Committee and received five supportive responses before developing this Rule Change Proposal.

AEMO does not propose to extend the three-yearly review cycle so that the next review period would cover the 2019, 2020 and 2021 Reserve Capacity Cycles. AEMO considers that this Rule Change Proposal should propose an immediate solution for the 2018 Reserve Capacity Cycle, but otherwise leave the three-yearly review cycle unchanged.

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<sup>3</sup> Clause 4.11.3C (in its original 2012 form) required the Independent Market Operator to review the Relevant Level Methodology. Clause 4.11.3C was amended in 2016 and now refers to the ERA.

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

AEMO proposes that this Rule Change Proposal be progressed via the Fast Track Rule Change Process because it is of a minor or procedural nature and is required to correct a manifest error in the Market Rules.

AEMO notes that Market Participants may submit Certified Reserve Capacity applications for the 2018 Reserve Capacity Cycle between 1 May 2018 and 29 June 2018. AEMO considers it is important that this matter is urgently addressed to provide certainty for Market Participants in advance of the 2018 Reserve Capacity Cycle processes. Further, the rule changes must be in place by 1 July 2018 to ensure that (for applicants who nominate the clause 4.11.2(b) methodology for the 2018 Reserve Capacity Cycle) AEMO can calculate the Relevant Level in time to assign Certified Reserve Capacity by 19 August 2018.

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

### Changes to clause 1.17.5

1.17.5 The operation of:

...

(d) clause 4.11.3C is modified so that the Economic Regulation Authority is not required to conduct the first review of the Relevant Level Methodology before 1 April ~~of the second year of the specified period;~~ 2019, and

i. the values of the parameters K and U in step 17 of the Relevant Level Methodology to be applied for the 2018 Reserve Capacity Cycle are deemed to be the K and U values determined for the 2017 Reserve Capacity Cycle as published on the Market Web Site; and

ii. in conducting the first review of the Relevant Level Methodology, the Economic Regulation Authority must determine the values of the parameters K and U to be applied for the 2019 and 2020 Reserve Capacity Cycles; and

...

### Appendix 9 changes

Step\_17: Determine the facility adjustment factor (in MW) for each Candidate Facility f ("Facility Adjustment Factor") in accordance with the following formula:  
Facility Adjustment Factor =  $\min(G \times \text{Facility Variance } (f), \text{Facility Average Performance Level } (f) / 3 + K \times \text{Facility Variance } (f))$

Where

$$G = K + U / \text{Facility Average Performance Level } (f)$$

K is determined in accordance with the following table:

Reserve Capacity Cycle	Capacity Year	K value
2012	2014/15	0.001
2013	2015/16	0.002
2014	2016/17	0.003
2015 onwards	From 2017/18 onwards	To be determined by AEMO <u>the Economic Regulation Authority</u> in accordance with clause 4.11.3B 4.11.3C.

U is determined in accordance with the following table:

Reserve Capacity Cycle	Capacity Year	U
2012	2014/15	0.211
2013	2015/16	0.422
2014	2016/17	0.635
2015 onwards	From 2017/18 onwards	To be determined by AEMO <u>the Economic Regulation Authority</u> in accordance with clause 4.11.3B 4.11.3C.

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

The proposed amendments address the inconsistency between clauses 4.11.3C and 1.17.5(d), and step 17 of Appendix 9 of the Market Rules with respect to the 2018 Reserve Capacity Cycle, and will ensure that the market functions as intended.

AEMO considers that the proposed amendments will better achieve Wholesale Market Objectives (a) and (d) and are consistent with the remaining objectives.

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

**Costs**

The proposed change is not expected to impose any costs on Market Participants or AEMO.

**Benefits**

The proposed change will ensure that (for applicants who nominate the clause 4.11.2(b) methodology for the 2018 Reserve Capacity Cycle) AEMO can calculate the Relevant Level in time to assign Certified Reserve Capacity by 19 August 2018.