

Economic Regulation Authority



WESTERN AUSTRALIA

Level 6, Governor Stirling Tower
197 St Georges Terrace
Perth Western Australia 6000

Telephone 61 8 9213 1900
Facsimile 61 8 9213 1999
Web site www.era.wa.gov.au

GPO Box 8469
Perth Business Centre
Western Australia 6849

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5 March 2008

Ms Dora Guzeleva
Market Manager
Independent Market Operator
Level 22 Forest Centre
221 St Georges Terrace
Perth WA 6000

Dear Dora

SUBMISSION TO IMO - RC_2008_12 Dispatch Support Ancillary Services

In response to the Proposed Rule Change RC_2008_12 submitted by System Management, and the subsequent public consultation workshop, the Economic Regulation Authority encloses its Submission.

If you require further information or liaison, please contact John Lillywhite at the Authority (telephone 9213 1952).

Thank you for the opportunity to submit our views, the Authority looks forward to helping successfully implement the Proposed Rule Change.

Yours sincerely



LYNDON ROWE
CHAIRMAN

Wholesale Electricity Market Rule Change Proposal

Rule Change ID: RC_2008_12

Date received by IMO: 14 February 2008

Submitted by

Name:	Alistair Butcher
Phone:	9427 5787
Fax:	9427 4228
Email:	Alistair.butcher@westempower.com.au
Organisation:	System Management
Address:	
Date submitted:	14 February 2008
Urgency:	Fast track
Change Proposal title:	Dispatch support ancillary services
Market Rule(s) affected:	Clauses 2.23, 3.13 and new clause 3.11.8A to D

Introduction

This Market Rule Change Proposal can be posted, faxed or emailed to:

Independent Market Operator

Attn: Dora Guzeleva, Manager Market Administration

PO Box 7096

Cloisters Square, Perth, WA 6850

Fax: (08) 9254 4399

Email: marketadmin@imowa.com.au

The proposal should explain how it will enable the Market Rules to better contribute to the achievement of the wholesale electricity 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 Market Rule Change

1) Outline the issue concerning the existing Market Rules that is to be addressed by the proposed Market Rule change:

The Market Rules make provision for a class of ancillary services called "dispatch support". Dispatch support arrangements are designed to allow the dispatch of facilities to support the security and reliability of the network.

System Management currently utilises several strategically located Verve Energy facilities for dispatch support purposes, but may utilise other facilities. Limited mechanisms exist for System Management to procure – and pay for – the dispatch support services it acquires, and Verve Energy is not compensated for this out-of-merit use, as the allowable revenue for ancillary services did not seek provision for dispatch support (the value of "D" in "Cost_LRD", as defined in clause 2.23.12(d)(iii) was set at zero).

System Management may make application to vary the ancillary services allowable revenue where it is necessary to procure additional ancillary services, or, in this case, to ensure that appropriate compensation is paid for those facilities that offer dispatch support services pursuant to the Market Rules.

Clause 2.23 of the Market Rules, which provides for System Management's allowable revenue for both system operation services and ancillary services, may be adjusted within a "review period" in certain circumstances. Prima facie, System Management may apply to include a dispatch support component within the allowable revenue. Both System Management and the IMO are of the view that it is not feasible to propose a particular amount for dispatch support, as this value will vary significantly on a month-by-month basis, depending on the amount of dispatch support obtained. Consequently, it is considered that adopting a formula as the value of "D" will best reflect the amount of dispatch support acquired in any given month.

However, the Economic Regulation Authority has expressed some doubts concerning whether System Management may propose, and the Authority may approve, a value for dispatch support which is based around a formula; that is, the Authority considers that the Market Rules may require System Management to propose a particular amount for dispatch support.

In order to deal with this potential impasse, and to ensure Verve Energy (and other potential suppliers of dispatch support) is adequately compensated, it is proposed to amend the Market Rules to remove the value of "dispatch support" from the clause 2.23 allowable revenue and budget approval processes.

It is important to note that System Management does not propose to amend the Market Rules to remove regulatory oversight/approval of dispatch support arrangements, merely to remove dispatch support from impacting upon the budget. Therefore System Management must continue to satisfy the requirements of clause 3.11.9 before entering into ancillary service contracts. However, to address concerns that regulatory approval of an intended ancillary service contract may cause substantial delay, System Management's proposed rule change states that the Authority "may" engage in public consultation, but does not mandate this. Further, the rule change constrains the Authority to make a decision whether to approve the

intended dispatch support arrangement within 20 business days of receiving an application from System Management.

Therefore, a number of changes to the Market Rules are necessary to:

- allow System Management to enter into dispatch support arrangements, provided that regulatory approval is given; and
- remove the concept of dispatch support from "Cost_LRD" in clause 2.23 (budgets), but ensuring that settlement mechanisms are unchanged.

2) Explain the reason for the degree of urgency:

System Management submits that the above rule changes be proceeded with under the "fast track" rule change process, provided for in clause 2.5.9(a), on the basis that it is of a minor or procedural nature.

The proposed change is procedural in that it removes Dispatch Support ancillary service from the budgetary provisions relating to System Management, but retains the existing framework which governs System Management entering into such arrangements. Importantly, the change does not impact upon System Management's obligations to satisfy the requirements of clause 3.11.9 with regard to any ancillary service contracts it intends to enter into.

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

2.23.12 The Economic Regulation Authority must take the following into account when determining the allowable revenue of System Management:

...

- (d) the determination of the Allowable Revenue of Ancillary Service provision must take into account the payment structure set out in clause 3.13, and the Economic Regulation Authority must determine values for:

...

- iii Cost_LRD, which must cover the costs for providing the Load Rejection Reserve, and System Restart and Dispatch Support Ancillary Services, but does not take into account the costs for providing Dispatch Support Ancillary Services.

3.11.8 System Management may enter into an Ancillary Service Contract with a Rule Participant other than the Electricity Generation Corporation, for Spinning Reserve and Load Following Ancillary Services, where:

...

- 3.11.8A System Management may enter into an Ancillary Service Contract with a Rule Participant for Load Rejection Reserve, System Restart and Dispatch Support Ancillary Services.
- 3.11.8B System Management must seek obtain the approval of the Economic Regulation Authority before entering into an Ancillary Service Contract for Dispatch Support Ancillary Services.
- 3.11.8C The Economic Regulation Authority must, within 20 business days of receiving an application from System Management under clause 3.11.8B, approve only review whether an Ancillary Service Contract, to which 3.11.8B applies, would achieve the lowest practicably sustainable cost of delivering the services satisfies the requirements of clause 3.11.9.
- 3.11.8D The Economic Regulation Authority may undertake a public consultation process in determining whether to approve the Ancillary Service Contract for Dispatch Support Service. In determining whether to undertake a public consultation process, the Economic Regulation Authority must have regard to the terms of the Ancillary Service Contract, in particular including the length of its intended operation and whether a need exists to expedite the approval process.
- 3.13.1 The total payments by the IMO on behalf of System Management for Ancillary Services in accordance with Chapter 9 comprise:
- ...
- (d) Cost_LRD, the monthly amount for Load Rejection Reserve, and System Restart services and Dispatch Support services, determined in accordance with System Management's budget process described in clause 2.23, and Dispatch Support service determined in accordance with clause 3.11.8C.

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

This proposed Rule Change would better address objectives (a), (b) and (d) 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, as well as minimise the long-term cost of electricity through the provision of dispatch support arrangements, rather than reliance on potentially significant network augmentations.

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

The proposed change to the Market Rule does not incur additional costs and benefits. The proposed change merely removes Dispatch Support ancillary service from being part of System Management's allowable revenue, but ensures that regulatory approval of dispatch support contracts, and a public consultation process, remains.

**Wholesale Electricity Market
Rule Change Proposal Submission Form**

RC_2008_12 Dispatch support ancillary services

Submitted by

Name:	Robert Pullella
Phone:	9213 1944
Fax:	9213 1999
Email:	robert.pullella@era.wa.gov.au
Organisation:	Economic Regulation Authority
Address:	
Date submitted:	5 March 2008

Submission

1. Please provide your views on the proposal, including any objections or suggested revisions.

The Authority agrees with the general intent of System Management's proposal to remove the Dispatch Support Service from the Allowable Revenue process and budget, however the Authority has expressed at the public consultation workshop a different opinion of some of the detail within the proposal.

The Authority has provided as an Attachment to this Submission a marked up copy of System Management's original proposal with the required changes. It is acknowledged that these changes were agreed to in principle by participants at the public consultation workshop and System Management are progressing a revised Proposal in this regard.

2. Please provide an assessment whether the change will better facilitate the achievement of the Market Objectives.

The Authority agrees that the proposed Rule Change would better address objectives (a) and (d) of the Market Objectives. The changes, incorporating the Authority's submission would promote the economically efficient, safe and reliable production and supply of electricity and electricity related services in the South West interconnected system, as well as minimise the long-term cost of electricity through the provision of dispatch support arrangements, rather than reliance on potentially significant network augmentations.

The Authority has proposed alternative wording to the proposed Rule Change in order to better define the Authority's role and provide a more practical way to achieving the objectives of the Rule Change and the Market.

The Authority does not support System Management's assertion that the proposed Rule Change would also facilitate Market Objective (b) to encourage competition and facilitate entry of new competitors.

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- 3. Please indicate if the proposed change will have any implications for your organisation (for example changes to your IT or business systems) and any costs involved in implementing these changes.**

No business process or cost implications are foreseen by the Authority.

- 4. Please indicate the time required for your organisation to implement the change, should it be accepted as proposed.**

The Authority can implement the proposed change immediately.
