

Independent Market Operator



Final Market Rule Change Report

Title: Reserve Capacity Testing Payments

Ref: RC_2007_18

Date: 17 January 2008

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1. INTRODUCTION

1.1. *General Information about Rule Changes*

Clause 2.5.1 of the Wholesale Electricity Market Rules provides that any person (including the Independent Market Operator) may make a Rule Change Proposal by completing a Rule Change Proposal Form and submitting this to the Independent Market Operator (IMO).

In order for the proposal to be progressed, the change proposal must 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
- (e) to encourage the taking of measures to manage the amount of electricity used and when it is used

A Rule Change Proposal can be processed using a Standard Rule Change Process or a Fast Track Rule Change Process. The standard process involves a combined 10 weeks public submission period. Under the shorter fast track process the IMO consults with Rule Participants who either advise the IMO that they wish to be consulted or the IMO considers have an interest in the change.

1.2. *About this Rule Change*

On 13 September 2007, the IMO submitted a Rule Change Proposal titled Reserve Capacity Testing Payments.

This Proposal has been processed using the Standard Rule Change Process, described in section 2.7 of the Wholesale Electricity Market Rules.

The standard process adheres to the following timelines, outlined in section 2.7 of the Market Rules:

- The Public Submission period is 6 weeks after the IMO has published the Rule Change Notice for the proposal.
- The IMO must publish a Draft Rule Change report within 20 Business Days of the end of the submission period.

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- The second Public Submission period is for a minimum of 20 Business Days from the date the Draft Rule Change Report is published.
- Within 20 Business Days after the end of the second Public Submission period, the IMO must publish a Final Rule Change Report.

The key dates in processing this Rule Change Proposal are:

- The Rule Change Notice for this proposal was published on the IMO website on 17 September 2007.
- The first Public Submission period on the Rule Change Proposal ended on 29 October 2007.
- The Draft Rule Change Report was published on 26 November 2007.
- The second Public Submission period was from 26 November to 24 December 2007.
- This Final Rule Change Report is published by the IMO on 17 January 2008.

Based on the response received from interested parties, and the IMO's assessment of the proposed changes against the Market Objectives, IMO's decision is to implement the rule changes as proposed by the IMO.

This Final Rule Change Report on the Rule Change Proposal has been prepared by the IMO in accordance with clause 2.7.6 of the Market Rules.

2. THE RULE CHANGE PROPOSAL

2.1. *The Submission*

The IMO submitted, on 13 September 2007, a Rule Change Proposal regarding changes to clauses 6.17.6 and 7.13.1 of the Wholesale Electricity Market Rules.

2.1.1. *Submission Details*

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Organisation: IMO
Date submitted: 13/09/2007
Urgency: High

2.2. *Details of the Proposal*

The IMO proposed to amend the Market Rules to clarify the payments Participants receive when their facilities are undergoing Reserve Capacity tests or Commissioning Tests.

Clause 7.7.1 of the Market Rules states:

7.7.1. A Dispatch Instruction is an instruction issued by System Management to a Market Participant other than the Electricity Generation Corporation directing that the Market Participant vary the output or consumption of one of its Registered Facilities from the level indicated in its Resource Plan, or to vary the output of any Registered Facility holding Capacity Credits but not included in a Resource Plan, for specified Trading Intervals.

For system security reasons, System Management needs the ability to issue Dispatch Instructions to Participants, even when they are undergoing testing.

In general, the IMO uses Dispatch Instruction information to determine the Dispatch Instruction Payments for Participants according to clause 6.17.6.

System Management currently provides Dispatch Instruction information to the IMO any time it directs a Participant to vary the output of a facility, including in the case of Reserve Capacity testing under section 4.25 of the Market Rules.

Section 4.25 of the Wholesale Electricity Market Rules governs the Reserve Capacity Testing of facilities. Clause 4.25.10 states that when a facility is tested for Reserve Capacity, the Dispatch Schedule for that facility has to be set to reflect the energy scheduled in the test. Thus, Participants get paid MCAP for the energy dispatched during the test.

This is also consistent with Verve Energy not receiving Dispatch Instruction Payments for Reserve Capacity testing purposes. The intent is for both Verve Energy and non-Verve

Energy facilities to be paid MCAP for any energy dispatched as a result of the Reserve Capacity tests.

Since it is not intended for Participants to receive Dispatch Instruction Payments for the energy scheduled during these tests, the IMO proposes to clarify clauses 6.17.6 and 7.13.1 to explicitly exclude Dispatch Instructions from being provided to the IMO if a facility is undergoing a Reserve Capacity test in accordance with section 4.25.

In addition, Participants are paid MCAP for Commissioning Tests according to clause 3.21A.14. The IMO therefore also proposes to clarify that Dispatch Instructions are not provided to the IMO if a facility is undergoing a Commissioning Test in accordance with section 3.21A.

In regard to Reserve Capacity testing, the IMO has developed a testing protocol, available on the IMO website, which seeks to minimise the cost of these tests and also minimise the need for separate Reserve Capacity tests to be run by Market Participants. The protocol enables performance to be verified from normal operation, without the need for specific Reserve Capacity tests.

For liquid fuel facilities or facilities that only operate at full capacity for short periods over the year, Reserve Capacity tests may also be run during normal maintenance or operational testing, or at times when liquid fuels are likely to be used to meet normal market operations. This will assist Participants to prove the ability to operate their facilities at their maximum Reserve Capacity Level with minimal additional costs.

2.3. Amending Rules Proposed by the IMO

The IMO proposed the following amendments to the Market Rules (added words are underlined>):

- 6.17.6. The Dispatch Instruction Payment, $DIP(p,d,t)$, for Market Participant p and Trading Interval t of Trading Day d equals the sum of:
- (a) zero, if Market Participant p :
 - i is the Electricity Generation Corporation; or
 - ii was issued no Dispatch Instructions or was issued instructions described by either (c) or (d) for the Trading Interval;
 - (b) the sum over all Scheduled Generators and Dispatchable Loads registered by the Market Participant of the following amounts for Trading Interval t :
 - i. if the Dispatch Schedule for the Registered Facility is set in accordance with clause 6.15.1(a) for Trading Interval t , the Balancing Support Contract energy dispatched from the Facility in Trading Interval t as specified by System Management in accordance with clause 7.13(dA) is zero (where for the purpose of this calculation a Loss Factor adjustment is to be applied to the quantity specified by System Management so that the result is measured at the Reference Node) and the Network Control

Service Contract energy dispatched from the Facility in Trading Interval t as specified by System Management in accordance with clause 7.13(dB) is zero (where for the purpose of this calculation a Loss Factor adjustment is to be applied to the quantity specified by System Management so that the result is measured at the Reference Node), the amount for the Registered Facility is zero;

iA. if clauses 3.21A.14 or 4.25.10 apply to the Registered Facility during the Trading Interval, the amount for the Registered Facility is zero;

- 7.13.1. System Management must provide the IMO with the following data for a Trading Day by noon on the first Business Day following the day on which the Trading Day ends:
- (a) the Operational System Load Estimate in each Trading Interval in the Trading Day;
 - (b) Load Forecasts prepared by System Management in accordance with clause 7.2.1(b);
 - (c) a schedule of all of the Dispatch Instructions, other than instructions with respect to Registered Facilities to which clauses 3.21A.14 or 4.25.10 apply, that System Management issued for each Trading Interval in the Trading Day by Market Participant and Facility, including the information specified in clause 7.7.3;

3. SUBMISSIONS RECEIVED IN THE FIRST SUBMISSION PERIOD

The first submission period for this Rule Change Proposal was between 17 September and 29 October 2007. IMO received submissions from Alinta Sales, Landfill Gas and Power, and Synergy. A summary of the submissions is given below. The full text of the submissions can be found on the IMO website.

3.1. *Market Advisory Committee*

The Market Advisory Committee (MAC) was invited to have preliminary discussions on the Proposal at its meeting on 12 September 2007, before it was formally submitted by the IMO.

MAC noted that the current intent of the Market Rules appears to be that MCAP should be paid for Reserve Capacity tests and that there is a need to clarify inconsistencies in respect to this in the Market Rules. MAC also agreed that clarifying this will ensure that Verve Energy facilities are treated equally to non Verve Energy facilities in regard to compensation for these tests. While MAC members questioned whether MCAP will cover the full cost of the tests in all circumstances, MAC was in general agreement that the proposal should be put forward in order to clarify the Market Rules.

At the MAC meeting on 10 October 2007, members were invited to express their view on the formal Proposal. MAC supported the proposed Rule Changes.

3.2. *Submission from Alinta Sales*

Alinta agreed that the Market Rules should be clarified to remove any doubt as to the treatment of facilities undergoing testing. Alinta noted that there are procedures in place to allow facilities to prove compliance with their Reserve Capacity Obligations during normal operations.

Alinta requested clarification whether Dispatch Instruction Payments will be paid to Participants when System Management issues a Dispatch Instruction to a facility running at its Reserve Capacity Obligation Quantity during normal operation, (e.g. proving its compliance with its obligations during normal operations). If the Participant will receive Dispatch Instruction Payments under these circumstances, Alinta considered that the proposed change will better facilitate the achievement of Market Objectives (a) and (b).

3.3. *Submission from Landfill Gas and Power (LGP)*

LGP expressed its support of the IMO's proposal that generators should not receive Dispatch Instruction Payments on occasions when Dispatch Instructions are issued for the purposes of Reserve Capacity testing.

3.4. *Submission from Synergy*

Synergy supported the IMO's rule change proposal as providing clarity to the Market Rules. Synergy noted that the proposed changes will provide clarity to Participants and potential investors in regard to payments for Reserve Capacity tests.

Synergy considered that the proposed changes are consistent with the operation of objective (a) and (b) of the Market Objectives.

3.5. *Public Forums and Workshops*

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

3.6. *The IMO's Response to the First Round of Submissions*

No interested party expressed any concern regarding the proposed change. In their submissions, Alinta, Landfill Gas and Power and Synergy expressed their support for the proposal.

Alinta requested the IMO to clarify whether a facility, attempting to prove its Reserve Capacity Obligation Quantity during normal operation, will receive Dispatch Instruction Payments if System Management issues a Dispatch Instruction to the facility to extend its operation beyond the period reflected in the Resource Plan.

The IMO confirmed that a Participant will receive Dispatch Instruction Payments when System Management issues a Dispatch Instruction during normal operation of the facility (e.g. no test was scheduled), for example in the scenario outlined by Alinta. Dispatch Instructions provided to the IMO by System Management contain a flag which identifies if an instruction relates to, for example, normal operation, a Commissioning Test, or a Reserve Capacity test. The status of this flag is used to determine the Dispatch Instruction Payments.

4. THE IMO'S DRAFT DECISION

Based on the submissions received and its assessment against the Market Objectives, the IMO's draft decision was to implement the proposed changes to clauses 6.17.6 and 7.13.1 in their original form. This would amend the Market Rules to clarify that the IMO will not receive Dispatch Instructions from System Management when facilities are undergoing Reserve Capacity testing or Commissioning Tests.

The IMO made its draft decision on the basis that the resulting Amending Rules will allow the Market Rules to better address the Market Objectives.

5. SUBMISSIONS RECEIVED IN THE SECOND SUBMISSION PERIOD

Following the Draft Rule Change Report publication on the IMO website, the second submission period was between 26 November and 24 December 2007. The IMO received one submission, from Alinta Sales. A summary of the submission is provided below. The submission can be found on the IMO website.

5.1. *Submission from Alinta Sales*

Alinta welcomed the clarification in the Draft Report in regard to the question raised in its first submission. That is, whether Dispatch Instruction Payments will be made to Participants when System Management issues a Dispatch Instruction to a facility running at its Reserve Capacity Obligation Quantity during normal operation. Alinta also expressed its continuing support for the rule change.

6. THE IMO'S ASSESSMENT AND THE IMO'S FINAL DECISION

No interested party expressed concerns regarding the amendments to the Market Rules outlined in the Draft Rule Change Report. In its submission, Alinta Sales expressed its support for the changes.

6.1. *The IMO's Assessment of the Rule Change Proposal*

According to clauses 2.4.2 of the Market Rules *"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's assessment of the proposed rule changes against each of the Market Objectives, which was also published in the IMO's Draft Report, is as follows:

- (a) *to promote the economically efficient, safe and reliable production and supply of electricity and electricity related services in the South West interconnected system.*

The IMO considers that the proposed rule changes will promote economic efficiency by treating all participants equally. The changes clarify that both Verve Energy and all other participants are treated equally with respect to the payments they receive in the event of Reserve Capacity tests. Therefore, the IMO considers that the proposed rule changes are consistent with the operation of objective (a) of the Market Objectives. In their submissions, Alinta and Synergy supported this assessment.

- (b) *to encourage competition among generators and retailers in the South West interconnected system, including by facilitating efficient entry of new competitors.*

The proposed rule changes will provide clarity to Participants and potential investors in regard to payments for Reserve Capacity tests. The IMO considers that the proposed rule changes therefore are consistent with the operation of objective (b) of the Market Objectives. In their submissions, Alinta and Synergy supported this assessment.

- (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.*

The IMO considers that the proposed rule changes do not impact on, and therefore are consistent with the operation of objective (c) of the Market Objectives.

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

The IMO considers that the proposed rule changes do not impact on, and therefore are consistent with, the operation of objective (d) of the Market Objectives.

- (e) *to encourage the taking of measures to manage the amount of electricity used and when it is used.*

The IMO considers that the proposed rule changes do not impact on, and therefore are consistent with, the operation of objective (e) of the Market Objectives.

In accordance with Clause 2.4.3(b) of the Market Rules, in deciding whether or not to make Amending Rules, the IMO must also have regard to the practicality and cost of implementing the Amending Rules.

The proposed rule changes will not require changes to the Wholesale Electricity Market System operated by the IMO. No other costs have been identified in relation to this change during the submission process.

6.2. *The IMO's Final Decision*

The IMO's final decision is to:

- Implement the proposed changes to clauses 6.17.6 and 7.13.1 in their original form. This will amend the Market Rules to clarify that the IMO will not receive Dispatch Instructions from System Management for facilities undergoing Reserve Capacity testing or Commissioning Tests.

The IMO has made its decision on the basis that the resulting amended Market Rules will allow the Market Rules to better address the Market Objectives.

The wording of the relevant Amending Rules is presented in Section 7 of this Report.

6.3. *Amending Rules Commencement*

The amendments to clauses 6.17.6 and 7.13.1 of the Wholesale Electricity Market Rules will commence at **08.00am** on **1 February 2008**.

7. AMENDING RULES

The following clauses are amended (~~deleted wording~~, new wording):

Clause 6.17.6

- 6.17.6. The Dispatch Instruction Payment, $DIP(p,d,t)$, for Market Participant p and Trading Interval t of Trading Day d equals the sum of:
- (a) zero, if Market Participant p :
 - i is the Electricity Generation Corporation; or
 - ii was issued no Dispatch Instructions or was issued instructions described by either (c) or (d) for the Trading Interval;
 - (b) the sum over all Scheduled Generators and Dispatchable Loads registered by the Market Participant of the following amounts for Trading Interval t :
 - i. if the Dispatch Schedule for the Registered Facility is set in accordance with clause 6.15.1(a) for Trading Interval t , the Balancing Support Contract energy dispatched from the Facility in Trading Interval t as specified by System Management in accordance with clause 7.13(dA) is zero (where for the purpose of this calculation a Loss Factor adjustment is to be applied to the quantity specified by System Management so that the result is measured at the Reference Node) and the Network Control Service Contract energy dispatched from the Facility in Trading Interval t as specified by System Management in accordance with clause 7.13(dB) is zero (where for the purpose of this calculation a Loss Factor adjustment is to be applied to the quantity specified by System Management so that the result is measured at the Reference Node), the amount for the Registered Facility is zero;
 - iA. if clauses 3.21A.14 or 4.25.10 apply to the Registered Facility during the Trading Interval, the amount for the Registered Facility is zero;

Clause 7.13.1

- 7.13.1. System Management must provide the IMO with the following data for a Trading Day by noon on the first Business Day following the day on which the Trading Day ends:
- (a) the Operational System Load Estimate in each Trading Interval in the Trading Day;
 - (b) Load Forecasts prepared by System Management in accordance with clause 7.2.1(b);
 - (c) a schedule of all of the Dispatch Instructions, other than instructions with respect to Registered Facilities to which clauses 3.21A.14 or 4.25.10 apply, that System Management issued for each Trading Interval in the Trading Day by Market Participant and Facility, including the information specified in clause 7.7.3;