



INDEPENDENT
MARKET
OPERATOR



Final Rule Change Report: Specific Transition Provisions for the 2015 Reserve Capacity Cycle (RC_2015_05)

Standard Rule Change Process

7 August 2015

Executive summary

On 13 March 2015, the IMO received a Ministerial Direction to defer most aspects¹ of the 2015 Reserve Capacity Cycle, including the 2015 Electricity Statement of Opportunities (ESOO), by 12 months in accordance with clause 4.1.32 of the Wholesale Electricity Market (WEM) Rules (Market Rules). The 2015 Reserve Capacity Cycle relates to the procurement of capacity for the 2017/18 Capacity Year.

Proposed amendments

As was the case with the deferral of the 2014 ESOO, the deferral of the 2015 ESOO by 12 months requires the IMO to introduce transitional provisions to:

1. undertake the annual Long Term PASA processes and calculate the Reserve Capacity Requirement for the 2015 Reserve Capacity Cycle in 2016; and
2. use the ESOO for the 2014 Reserve Capacity Cycles (published in 2015) for the preliminary Reserve Capacity Requirement in the Request for Expression of Interest process for the 2016 Reserve Capacity Cycle,

for the purpose of satisfying its obligations with respect to the 2015 Reserve Capacity Cycle under the Market Rules.

The proposed Amending Rules in this Rule Change Proposal are equivalent to the Amending Rules in the Rule Change Proposal: Specific Transition Provisions for the 2014 Reserve Capacity Cycle (RC_2014_04)² as further amended by the Rule Change Proposal: Documentation of the Long Term PASA for the 2014 Reserve Capacity Cycle (RC_2015_04)³.

Consultation

The IMO tabled a pre Rule Change Proposal at the Market Advisory Committee (MAC) meeting on 18 March 2015. The IMO requested that MAC members provide any feedback or comments on the Rule Change Proposal out of session and noted that it intended to submit the Rule Change Proposal into the formal process under the Standard Rule Change Process shortly after. No MAC members provided feedback on the pre Rule Change Proposal.

The IMO formally submitted the Rule Change Proposal into the Standard Rule Change Process and published the Rule Change Notice on 30 March 2015.

The first submission period was held between 31 March and 14 May 2015. The IMO received two submissions from Community Electricity and Perth Energy, both of which supported the proposed amendments on the basis that the amendments are required to implement the Ministerial Direction.

The second submission period was held between 15 June and 10 July 2015. No submissions were received during this period.

¹ For the 2015 Reserve Capacity Cycle, this includes the certification process with the exception of running the 2015 Reserve Capacity Auction and the timing for which the Reserve Capacity Obligations and associated Reserve Capacity Price apply.

² Available at www.imowa.com.au/RC_2014_04.

³ Available at www.imowa.com.au/RC_2015_04.

Assessment against the Wholesale Market Objectives

The IMO considers that the Rule Change Proposal better achieves Wholesale Market Objectives (a), (b) and (d) by:

- providing relevant and up to date information to Market Participants regarding the need for new capacity at the time of the certification process for the 2015 Reserve Capacity Cycle, thereby promoting economic efficiency and reliability of electricity supply; and
- reducing the ambiguity with regard to the amount of capacity required in the WEM, thereby facilitating the efficient entry of new capacity investment only if required.

The IMO also considers there are no material costs associated with the use of the 2014 ESOO (published on 17 June 2015) to provide the Reserve Capacity Target for the Request for Expression of Interest process for the 2016 Reserve Capacity Cycle.

Practicality and cost of implementation

The IMO does not consider that there are any practical issues with respect to the implementation of the proposed changes. No Market Participants identified any issues with implementation.

The IMO considered the progression of this Rule Change Proposal in light of Phase 2 of the Electricity Market Review and in particular the proposal to establish a new rule change approval body. While the IMO notes it may be desirable to defer consideration of Rule Change Proposals until this body has been established, this would not be appropriate for this Rule Change Proposal. This is because the Rule Change Proposal is required to give effect to the Ministerial Direction to defer most aspects of the 2015 Reserve Capacity Cycle and the IMO is required to take the necessary steps to give effect to the direction. The IMO decided to progress this Rule Change Proposal in accordance with the proposed timeframes.

The IMO will incur minor administrative costs to facilitate the development and progression of this Rule Change Proposal. However, these costs can be accommodated within the IMO's existing budget.

The IMO's decision

The IMO's decision is to accept the Rule Change Proposal.

Next steps

The Amending Rules are proposed to commence on **8:00 AM on Tuesday 1 September 2015**.

Contents

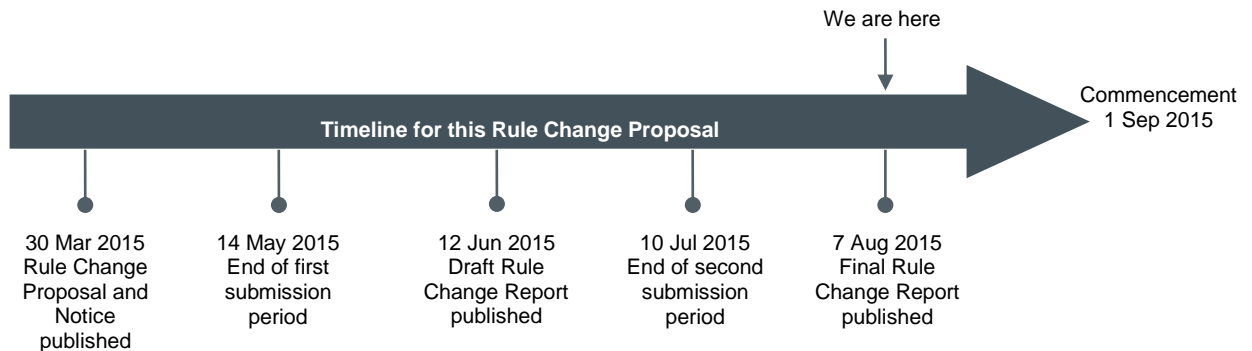
Executive summary	2
1. Rule change process and timeline	5
2. Proposed amendments	5
2.1 The Rule Change Proposal	5
2.2 The IMO's initial assessment of the Rule Change Proposal	6
2.3 Protected Provisions, Reviewable Decisions and civil penalties	6
3. Consultation	7
3.1 The Market Advisory Committee	7
3.2 Submissions received during the first submission period	7
3.3 The IMO's response to submission received during the first submission period	7
3.4 Additional amendments following the first submission period	7
3.5 Submissions received during the second submission period	7
3.6 The IMO's response to submissions received in the second submission period	7
3.7 Public forums and workshops	8
4. The IMO's draft assessment	8
5. The IMO's proposed decision	8
6. The IMO's final assessment	8
6.1 Additional amendments to the proposed Amending Rules	9
6.2 Assessment against the Wholesale Market Objectives	9
6.3 Practicality and cost of implementation	10
6.3.1 Practicality	10
6.3.2 Cost	10
7. The IMO's decision	10
7.1 Reasons for the decision	10
7.2 Proposed commencement	11
8. Proposed Amending Rules	11

1. Rule change process and timeline

On 30 March 2015, the IMO submitted a Rule Change Proposal proposing two new clauses 1.13.1 and 1.13.2 of the Wholesale Electricity Market (WEM) Rules (Market Rules) to enable the deferral of most aspects of the 2015 Reserve Capacity Cycle.

This proposal is being processed using the Standard Rule Change Process, described in section 2.7 of the Market Rules.

The key dates in processing this Rule Change Proposal are:



2. Proposed amendments

2.1 The Rule Change Proposal

Background

Under section 4.5 of the Market Rules, the IMO annually conducts the Long Term PASA (LT PASA) to determine the Reserve Capacity Target for each year of the LT PASA Study Horizon and prepare the ESOO Report for each Reserve Capacity Cycle.

On 13 March 2015, the IMO received a Ministerial Direction under regulation 39 of the *Electricity Industry (Independent Market Operator) Regulations 2004* to defer most aspects⁴ of the 2015 Reserve Capacity Cycle by 12 months, including the 2015 ESOO, in accordance with clause 4.1.32 of the Market Rules. The 2015 Reserve Capacity Cycle relates to the procurement of capacity for the 2017/18 Capacity Year. In accordance with the Ministerial Direction, the IMO published a notice of timeline extension for the 2015 Reserve Capacity Cycle on 20 March 2015⁵.

As was the case with the deferral of the 2014 ESOO⁶, the deferral of the 2015 ESOO by 12 months requires the IMO to address two resulting issues in the Market Rules:

1. Clause 4.3.1(b) of the Market Rules requires that the Request for Expression of Interest process for a Reserve Capacity Cycle must include the preliminary Reserve Capacity Requirement (RCR) determined in accordance with clause 4.6.3 of the

⁴ For the 2015 Reserve Capacity Cycle, this includes the certification process with the exception of running the 2015 Reserve Capacity Auction and the timing for which the Reserve Capacity Obligations and associated Reserve Capacity Price apply.

⁵ Information on the amendments to the Reserve Capacity timetable for the 2015 Reserve Capacity Cycle is available at: <http://www.imowa.com.au/reserve-capacity/reserve-capacity-timetable/reserve-capacity-timetable-overview>.

⁶ The IMO progressed the Rule Change Proposal: Specific Transition Provisions for the 2014 Reserve Capacity Cycle (RC_2014_04) to address these issues as they related to the 2014 Reserve Capacity Cycle. Available at: www.imowa.com.au/RC_2014_04.

Market Rules. Clause 4.6.3(b) of the Market Rules specifies that the preliminary RCR is the Reserve Capacity Target as reported in the ESOO for the preceding Reserve Capacity Cycle. Compliance with these clauses currently requires that the 2015 ESOO be published prior to the publication date of the 2016 Request for Expression of Interest, being by 31 January 2016. With the deferral of the 2015 ESOO to 17 June 2016, the IMO will be unable to comply with this clause because a preliminary RCR will not be available by 31 January 2016.

2. Clause 4.5.1 and the definition of LT PASA in the Glossary of the Market Rules require the IMO to conduct the LT PASA annually. Deferral of the 2015 ESOO means that the annual LT PASA for the LT PASA Study Horizon commencing in Year 1 of the 2015 Reserve Capacity Cycle will not be completed within the 2015 calendar year, resulting in the IMO not complying with clause 4.5.1 of the Market Rules.

Proposed amendments

To address these issues, the IMO proposed to introduce new transitional rules which will allow the IMO to:

- undertake the 2015 LT PASA and the RCR determination in 2016; and
- use the ESOO for the 2014 Reserve Capacity Cycle (published in 2015) for the preliminary RCR to be included in the Request for Expression of Interest process for the 2016 Reserve Capacity Cycle,

for the purpose of satisfying its obligations with respect to the 2015 Reserve Capacity Cycle under the Market Rules.

Full details of the Rule Change Proposal are available at: http://www.imowa.com.au/RC_2015_05.

2.2 The IMO's initial assessment of the Rule Change Proposal

The IMO decided to proceed with the proposal on the basis that section 4 of the Rule Change Proposal indicated that the proposed amendments would allow the Market Rules to better achieve Wholesale Market Objectives (a), (b) and (d) by ensuring that it can provide relevant and up to date information regarding the need for new capacity at the time of certification.

The IMO therefore considered that Rule Participants and other stakeholders should be given an opportunity to provide submissions on the proposal.

2.3 Protected Provisions, Reviewable Decisions and civil penalties

The proposed amendments do not affect any Protected Provisions, Reviewable Decisions or civil penalty provisions.

3. Consultation

3.1 The Market Advisory Committee

The IMO tabled the pre Rule Change Proposal at the Market Advisory Committee (MAC) meeting on 18 March 2015. The IMO requested that MAC members provide any feedback or comments on the Rule Change Proposal out of session and noted that it intended to submit the Rule Change Proposal into the formal process under the Standard Rule Change Process shortly after.

MAC members agreed, subject to any feedback provided, that the IMO should submit the Rule Change Proposal into the formal process and progress it using the Standard Rule Change Process. No MAC members provided feedback on the pre Rule Change Proposal.

The IMO submitted the Rule Change Proposal into the formal rule change process on 30 March 2015.

The MAC meeting minutes are available at: <http://www.imowa.com.au/MAC>.

3.2 Submissions received during the first submission period

The first submission period for this Rule Change Proposal was held between 31 March and 14 May 2015. The IMO received submissions from Community Electricity and Perth Energy, both of which supported the proposed amendments on the basis that the amendments are required to implement the Ministerial Direction.

A copy of all submissions in full received during the first submission period is available at: http://www.imowa.com.au/RC_2015_05.

3.3 The IMO's response to submission received during the first submission period

No issues were raised with respect to this Rule Change Proposal.

3.4 Additional amendments following the first submission period

The IMO did not propose any additional amendments to the proposed Amending Rules following the first submission period.

3.5 Submissions received during the second submission period

The second submission period was held between 15 June and 10 July 2015. No submissions were received during this period.

3.6 The IMO's response to submissions received in the second submission period

No submissions were received.

3.7 Public forums and workshops

The IMO did not hold any public forums or workshops specifically with regard to this Rule Change Proposal.

4. The IMO's draft assessment

The IMO's draft assessment against clauses 2.4.2 and 2.4.3 of the Market Rules, and analysis of the Rule Change Proposal can be viewed in the Draft Rule Change Report, available at http://www.imowa.com.au/RC_2015_05.

5. The IMO's proposed decision

The IMO's proposed decision was to accept the Rule Change Proposal. The wording of the relevant Amending Rules was presented in section 7 of the Draft Rule Change Report.

The IMO made its proposed decision on the basis that the Amending Rules:

- better achieved Wholesale Market Objectives (a), (b) and (d) and are consistent with the remaining Wholesale Market Objectives;
- provided clarity in relation to the IMO's obligations and ensure its actions are consistent with and result in the most efficient procurement of capacity in light of the deferral of most aspects of the 2015 Reserve Capacity Cycle under the Ministerial Direction; and
- had the support of the MAC and the submissions received.

6. The IMO's final assessment

In preparing this Final Rule Change Report, the IMO 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 of the Market Rules outlines that 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".

Additionally, clause 2.4.3 of the Market Rules states, when deciding whether to make Amending Rules, the IMO must have regard to the following:

- any applicable policy direction from the Minister regarding the development of the market;
- the practicality and cost of implementing the proposal;
- the views expressed in submissions and by the MAC; and
- any technical studies that the IMO considers necessary to assist in assessing the Rule Change Proposal.

The IMO notes that there has not been any applicable policy direction from the Minister or any technical studies commissioned in respect of this Rule Change Proposal. It should be noted that the Ministerial Direction (received on 13 March 2015) was issued under the IMO

Regulations⁷ as an operational direction to defer most aspects of the 2015 Reserve Capacity Cycle, and not a policy direction under the Market Rules.

A summary of the views expressed in submissions and by the MAC is available in section 3 of this Final Rule Change Report.

The IMO's assessment of the Rule Change Proposal is outlined in the following sub-sections.

6.1 Additional amendments to the proposed Amending Rules

The IMO has not made any additional changes to the proposed Amending Rules or the Rule Change Proposal.

6.2 Assessment against the Wholesale Market Objectives

The IMO considers that the Market Rules as a whole, if amended as presented in section 8 of this Final Rule Change Report, will not only be consistent with the Wholesale Market Objectives and but also allow the Market Rules to better achieve the Wholesale Market Objectives (a), (b) and (d):

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

The IMO notes that the proposed Amending Rules will allow the IMO to include any updated information and forecasts that become available in determining the Reserve Capacity Target for the 2017/18 Capacity Year in the LT PASA and ESOO as deferred. The IMO considers that using forecasts that better reflect the circumstances at that time will:

- provide relevant and more up to date information to Market Participants regarding the need for new capacity at the time of the certification process for the 2015 Reserve Capacity Cycle, thereby promoting economic efficiency and reliability of electricity supply; and
- reduce any ambiguity with regard to the amount of capacity required in the WEM, thereby facilitating the efficient entry of new capacity investment only if required.

Further, the IMO notes that the proposed Amending Rules will allow for the use of the ESOO for the 2014 Reserve Capacity Cycle (published on 17 June 2015) to provide the preliminary RCR to be included in the Request for Expression of Interest process for the 2016 Reserve Capacity Cycle. While the information in this ESOO may be potentially out of date for the Reserve Capacity Target for the 2018/19 Capacity Year, the IMO notes that the Request for Expression of Interest process is a non-binding process and the purpose of the preliminary RCR is to provide an indicative figure. This purpose will be adequately served by the information contained in the 2014 ESOO.

⁷ Section 39 of the *Electricity Industry (Independent Market Operator) Regulations 2004* (WA) allows the Minister to give the IMO, directions in writing, with respect to the performance of its functions, such as the Reserve Capacity Cycle.

The IMO considers that if the proposed amendments are not implemented, the Market Rules would be ambiguous with regard to the Reserve Capacity Target and the quantity of capacity to be procured for the 2015 Reserve Capacity Cycle. This may impose unnecessary costs on the market because the IMO would be required under the Market Rules to procure capacity to fulfil the previously determined Reserve Capacity Target even when more relevant, up to date and potentially lower forecasts become available.

6.3 Practicality and cost of implementation

6.3.1 Practicality

The IMO does not consider that there are any practical issues with respect to the implementation of the proposed changes. No Market Participants identified any issues with the implementation during the consultation on the Rule Change Proposal.

The IMO considered the progression of this Rule Change Proposal in light of Phase 2 of the Electricity Market Review and in particular the proposal to establish a new rule change approval body. While the IMO notes that it may be desirable to defer consideration of Rule Change Proposals until this body has been established, this would not be appropriate for this Rule Change Proposal. This is because this Rule Change Proposal is required to give effect to the Ministerial Direction to defer most aspects of the 2015 Reserve Capacity Cycle and the IMO is required to take the necessary steps to give effects to the direction. The IMO decided to progress this Rule Change Proposal in accordance with the proposed timeframes.

6.3.2 Cost

The IMO will incur minor administrative costs to facilitate the development and progression of this Rule Change Proposal. These costs will be accommodated within the IMO's existing budget.

7. The IMO's decision

The IMO's proposed decision is to accept the Rule Change Proposal as specified in the Rule Change Notice and Proposal.

7.1 Reasons for the decision

The IMO has made its decision on the basis that the proposed Amending Rules:

- provide clarity in relation to the IMO's obligation and ensure its actions are consistent with and result in the most efficient procurement of capacity in light of the deferral of most aspects of the 2015 Reserve Capacity Cycle under the Ministerial Direction;
- better achieve Wholesale Market Objectives (a), (b) and (d);
- are consistent with the remaining Wholesale Market Objectives;
- have the full support of the MAC and the submissions received; and

- do not seek to change the operation or the intended meaning of the Market Rules and therefore will not affect, or be affected by, the State Government's Electricity Market Review⁸.

Additional details outlining the analysis behind the IMO's decision is provided in section 6 of this Final Rule Change Report.

7.2 Proposed commencement

The Amending Rules are proposed to commence at **8:00 AM** on **1 September 2015**.

8. Proposed Amending Rules

The proposed Amending Rules as presented in the Rule Change Proposal are as follows (~~deleted text~~, added text):

TABLE OF CONTENTS

...
1.13 Specific Transition Provisions for the 2015 Reserve Capacity Cycle

...

1.13. Specific Transition Provisions for the 2015 Reserve Capacity Cycle

1.13.1. For the purposes of clause 4.5.1, the Long Term PASA for the 2015 Reserve Capacity Cycle is deemed to be the study conducted in accordance with clause 4.5 and published under clause 4.5.11 in the Statement of Opportunities Report published in Year 2 of the 2015 Reserve Capacity Cycle.

1.13.2. For the purposes of clauses 4.3.1(b) and 4.6.3(b), the preliminary Reserve Capacity Requirement for the 2016 Reserve Capacity Cycle is deemed to be the Reserve Capacity Target for the relevant Capacity Year as reported in the most recently published Statement of Opportunities Report.

⁸ Further information is available at:
https://www.finance.wa.gov.au/cms/Public_Utility_Office/Electricity_Market_Review/Electricity_Market_Review.aspx.