

Final Rule Change Report:
K and U parameters in Relevant Methodology for
2018 Reserve Capacity Cycle (RC_2018_02)

Fast Track Rule Change Process

26 March 2018

Contents

- 1. Rule Change Proposal and Timeline.....4**
- 2. Proposed Amendments4**
 - 2.1 The Rule Change Proposal4
 - 2.2 The Rule Change Panel’s Initial Assessment of the Proposal5
- 3. Consultation5**
 - 3.1 The Market Advisory Committee5
 - 3.2 Submissions Received During the Consultation Period6
 - 3.3 The Rule Change Panel’s Response to Submissions Received during the Consultation Period.....6
 - 3.4 Public Forums and Workshops7
- 4. The Rule Change Panel’s Final Assessment8**
 - 4.1 Additional Amendments to the Amending Rules8
 - 4.2 Wholesale Market Objectives9
 - 4.3 Practicality and Cost of Implementation9
- 5. The Rule Change Panel’s Decision9**
 - 5.1 Reason for the Rule Change Panel’s Decision9
- 6. Amending Rules9**
 - 6.1 Commencement.....9
 - 6.2 Amending Rules.....9
- Appendix A: Further Amendments to the Proposed Amending Rules..... 12**

1. Rule Change Proposal and Timeline

On 19 February 2018, the Australian Energy Market Operator (**AEMO**) submitted a Rule Change Proposal titled “K and U parameters in Relevant Level Methodology for 2018 Reserve Capacity Cycle” (**RC_2018_02**).

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

The timeline for progressing this proposal is:



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/market-rule-changes/rule-change-rc_2018_02.

2. Proposed Amendments

2.1 The Rule Change Proposal

Under clause 4.11.2(b) of the Market Rules, 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.

Step 17 of Appendix 9 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 the K and U parameters are to 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 Independent Market Operator (**IMO**) completed the first such review in 2014 and determined 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 IMO to the Economic Regulation Authority (**ERA**). Under the transitional provisions in clause 1.17.5(d) of the Market Rules, the deadline for the ERA’s first review under clause 4.11.3C was deferred from 1 April 2018 to 1 April 2019. The ERA’s first review

will determine K and U values for the 2018, 2019 and 2020 Reserve Capacity Cycles (amongst other things). The ERA has confirmed that it is yet to commence this review; which means that the review will not be completed in time for the K and U factors to be used for the certification of Reserve Capacity for the 2018 Reserve Capacity Cycle.

The unavailability of K and U values for the 2018 Reserve Capacity Cycle is clearly a manifest error, as is the requirement for the ERA to still provide K and U values for the 2018 Reserve Capacity Cycle, even if it completes the review after they are required.

AEMO therefore 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
- remove the requirement for the ERA to determine the K and U parameters for the 2018 Reserve Capacity Cycle.

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.

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 proposed Amending Rules are 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 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.*

3. Consultation

3.1 The Market Advisory Committee

The Pre-Rule Change Proposal for RC_2018_02 was discussed by the Market Advisory Committee (**MAC**) at its meeting on 14 February 2018.

During the discussion Mr Martin Maticka thanked those MAC members who provided support for AEMO's plan to develop the Pre-Rule Change Proposal.

Mr Maticka noted that some respondents suggested an additional change, to reset the review cycle under clause 4.11.3C of the Market Rules so that the next review would cover three Reserve Capacity Cycles (2019, 2020 and 2021) instead of two (2019 and 2020). AEMO considered the suggestion but decided against it, as it went beyond the simple manifest error that was outlined. AEMO sought to make the simplest, smallest change that was feasible that would provide AEMO with K and U values to use in the certification process for the 2018 Reserve Capacity Cycle (that is, by carrying over the K and U values determined for the 2017 Reserve Capacity Cycle for use in the 2018 Reserve Capacity Cycle).

Ms Jenny Laidlaw questioned whether the previous Minister had intended the ERA's first review to cover two years instead of three, or whether this was an oversight. Mr Shane Cremin considered that regardless of the original intent there was value in the next review covering a two-year period only. Mr Andrew Stevens agreed, considering that there was benefit in having a shorter review period given the current rapid pace of change.

Mrs Jacinda Papps suggested that the drafting of the Rule Change Proposal be left unchanged, noting that the ERA will have completed its review of the Relevant Level Methodology well before start of the 2021 Reserve Capacity Cycle. Ms Sara O'Connor agreed, suggesting that the ERA consider the frequency of future reviews as part of its first review.

The MAC supported progression of the Rule Change Proposal under the Fast Track Rule Change Process.

Details of the discussion at the 14 February 2018 MAC meeting are available in the meeting minutes on the Rule Change Panel's website at <https://www.erawa.com.au/rule-change-panel/market-advisory-committee/market-advisory-committee-meetings>.

3.2 Submissions Received During the Consultation Period

The consultation period for this Rule Change Proposal was held between 23 February 2018 and 15 March 2018. One submission was received from Perth Energy.

Perth Energy supported the proposed changes to formally defer the ERA's review and allow AEMO to use the most recent K and U factors in the calculations for the 2018 Reserve Capacity Cycle. However, Perth Energy raised a concern that the proposed drafting, which effectively shortens the period for the ERA's first review of the Relevant Level Methodology to two years, will increase the annualised cost of the review process and long-term costs to Market Participants.

Perth Energy recommended that the three-year review period be retained by removing the transitional arrangement in clause 1.17.5(d) and changing the date in clause 4.11.3C from 2015 to 2019.

Perth Energy considered that the proposed Amending Rules, subject to the suggested changes, would better achieve the Wholesale Market Objectives.

Perth Energy's submission is available in full on the Rule Change Panel's website.

3.3 The Rule Change Panel's Response to Submissions Received during the Consultation Period

The Rule Change Panel may only progress a Rule Change Proposal using the Fast Track Rule Change Process if it considers the changes satisfy the fast track criteria specified in clause 2.5.9 of the Market Rules. This Rule Change Proposal must be progressed using the

Fast Track Rule Change Process to ensure the timely availability of K and U values for the 2018 Reserve Capacity Cycle.

The current Market Rules require the ERA to determine K and U values for the 2018, 2019 and 2020 Reserve Capacity Cycles; but shift the deadline for the completion of that review by one year, from 1 April 2018 to 1 April 2019. This means that the ERA can either complete the review by the original deadline of 1 April 2018 or delay the process to as late as 1 April 2019.

If the ERA was to complete the review by 1 April 2018, then:

- the K and U values for the 2018 Reserve Capacity Cycle would be determined by the ERA in time for their use in the certification process; and
- the review would be completed about three years after the previous review (conducted by the IMO) and three years before the deadline for the following review (1 April 2021).

However, given that the ERA intends to delay the review, as permitted under clause 1.17.5(d):

- K and U values for the 2018 Reserve Capacity Cycle will not be available to AEMO for use in the certification process, as they will not have been determined by the ERA by the time they are needed;
- the ERA is still required to determine K and U values for the 2018 Reserve Capacity Cycle, even though the ERA's determination of these values will serve no useful purpose; and
- the review will be completed about four years after the previous review and two years before the deadline for the following review.

The Rule Change Panel considers that the lack of K and U values for the 2018 Reserve Capacity Cycle and the requirement for the ERA to still calculate these values for the 2018 Reserve Capacity Cycle constitute manifest errors that need to be addressed.

However, there is no evidence to indicate that the requirement for the ERA to complete its second review of the Relevant Level Methodology by 1 April 2021, two years after the deadline for completion of its first review, is a manifest error in the Market Rules. Completion of the second review two years after completion of the first review is feasible and was explicitly supported by several MAC members at the 14 February 2018 MAC meeting.

Therefore, the Rule Change Panel cannot conclude that Perth Energy's proposal to shift the review timeline later by one year to ensure a three-year review period for the ERA's first review addresses a manifest error in the Market Rules. Further, the Rule Change Panel considers Perth Energy's proposed change is not of a minor or procedural nature, and is not urgently required and essential for the safe, effective and reliable operation of the market or the SWIS. Therefore, while the Rule Change Panel acknowledges Perth Energy's concerns about the additional cost associated with a two-year review, it cannot consider the alternative drafting proposed in Perth Energy's submission as part of Rule Change Proposal RC_2018_02, as the proposed changes do not meet the criteria for progression under the Fast Track Rule Change Process.

3.4 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 states 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”.

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

- 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.

When making its final decision, the Rule Change Panel has had regard to each of the matters identified in clauses 2.4.2 and 2.4.3 of the Market Rules as follows:

- the Rule Change Panel's assessment of the Rule Change Proposal against the Wholesale Market Objectives is available in section 4.2 of this report;
- 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;
- the Rule Change Panel's assessment of the practicality and cost of implementing the Rule Change Proposal is available in section 4.3 of this report;
- a summary of the views expressed in submissions and by the MAC is available in section 3 of this report; and
- the Rule Change Panel does not believe a technical study in respect of this Rule Change Proposal is required and therefore has not commissioned one.

The Rule Change Panel's assessment is presented 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.

The Rule Change Panel amended new clause 1.17.5(d)(i) to clarify that the K and U parameters are found in Step 17 of Appendix 9, not in Step 17 of the Relevant Level Methodology as referred to in the Rule Change Proposal.

The Rule Change Panel also further amended clauses 1.17.5 and Step 17 of Appendix 9 to make minor drafting and punctuation improvements.

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

4.2 Wholesale Market Objectives

The Rule Change Panel considers that the proposed amendments, as modified after the consultation period, will correct manifest, minor and typographical errors in the Market Rules; and are consistent with the Wholesale Market Objectives.

4.3 Practicality and Cost of Implementation

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

The Rule Change Panel 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.

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 manifest, minor and typographical errors in the Market Rules;
- increase the integrity, consistency and readability of the Market Rules;
- are consistent with the Wholesale Market Objectives;
- are supported by the MAC;
- are generally supported by the one submission received; and
- create no cost or practicality issues.

Detail outlining the analysis behind the Rule Change Panel's decision is provided 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 27 March 2018**.

6.2 Amending Rules

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

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 Appendix 9 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: Relevant Level Determination

Step_17: Determine the facility adjustment factor (in MW) for each Candidate Facility f (“Facility Adjustment Factor”) in accordance with the following formula:

$$\text{Facility Adjustment Factor} = \min\left(\frac{G \times \text{Facility Variance (f)}}{\text{Facility Average Performance Level (f)} + K \times \text{Facility Variance (f)}}\right)$$

Where

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

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 <u>4.11.3C</u> .

U is determined in accordance with the following table:

Reserve Capacity Cycle	Capacity Year	U value
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 the <u>Economic Regulation Authority</u> in accordance with clause 4.11.3B <u>4.11.3C</u> .

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):

1.17.5. 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 2019, and:
 - i. the values of the parameters K and U in ~~s~~Step 17 of ~~the Relevant Level Methodology~~Appendix 9 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: Relevant Level Determination

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 the Economic Regulation Authority in accordance with clause 4.11.3C.

U is determined in accordance with the following table:

Reserve Capacity Cycle	Capacity Year	U <u>value</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 the Economic Regulation Authority in accordance with clause 4.11.3C.