



WHOLESALE ELECTRICITY MARKET

PROCEDURE CHANGE PROPOSAL: AEPC_2017_04

MARKET PROCEDURE: CERTIFICATION OF RESERVE
CAPACITY

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EXECUTIVE SUMMARY

The publication of this Procedure Change Proposal and accompanying call for submissions commences the Procedure Change Process conducted by AEMO to consider a proposed revised Market Procedure: Certification of Reserve Capacity under the Wholesale Electricity Market Rules (WEM Rules).

This Market Procedure is required by clauses 4.9.10 and 4.28C.15 of the WEM Rules, which require AEMO to document the process:

- Market Participants must follow in applying for Certified Reserve Capacity or Early Certified Reserve Capacity.
- AEMO must follow in processing those applications, that includes assigning Certified Reserve Capacity, setting Reserve Capacity Obligation Quantities, and approving Early Certified Reserve Capacity.

Amendments are proposed to the Market Procedure to reflect amendments to the WEM Rules that commenced on or before 1 July 2016, and further amendments scheduled to commence on 1 October 2017, which include changes to the processes for certification of Reserve Capacity.

This Procedure Change Proposal includes this document, which outlines the reason for the proposed amendments to the Market Procedure, and the proposed Market Procedure itself, which is available at:

http://www.aemo.com.au/Stakeholder-Consultation/Consultations/AEPC_2017_04.

AEMO invites stakeholders to suggest alternative options or drafting where they consider that these would improve the procedure or better meet the Wholesale Market Objectives in section 122(2) of the *Electricity Industry Act 2004* (Electricity Industry Act) (and clause 1.2.1 of the WEM Rules).

Stakeholders are invited to submit written responses on the proposed Market Procedure by 5.00 pm Australian Western Standard Time (AWST) on 25 July 2017, in accordance with the call for submissions published with this Procedure Change Proposal.



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1. PROCEDURE CHANGE PROCESS

Section 2.10 of the WEM Rules outlines the Procedure Change Process.

AEMO may initiate the Procedure Change Process in respect of Market Procedures (including Power System Operation Procedures and the Monitoring and Reporting Protocol) for which it is responsible, by developing a Procedure Change Proposal. Rule Participants may notify AEMO where they consider an amendment or replacement of an AEMO Market Procedure would be appropriate (Clauses 2.10.1 and 2.10.2).

If an Amending Rule requires AEMO to develop new Market Procedures or amend or replace existing Market Procedures, then AEMO is responsible for the development, amendment or replacement of Market Procedures to comply with the Amending Rule (Clause 2.10.3).

Under clause 2.9.3 of the WEM Rules, Market Procedures:

- (a) must:
 - i. be developed, amended or replaced in accordance with the process in the WEM Rules;
 - ii. be consistent with the Wholesale Market Objectives; and
 - iii. be consistent with the WEM Rules, the Electricity Industry Act and the WEM Regulations; and
- (b) may be amended or replaced in accordance with section 2.10 of the WEM Rules and must be amended or replaced in accordance with section 2.10 of the WEM Rules, where a change is required to maintain consistency with Amending Rules.

The Wholesale Market Objectives 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.

AEMO has published this Procedure Change Proposal in accordance with the Procedure Change Process in clause 2.10 of the WEM Rules.

AEMO’s indicative timeline for this consultation is outlined below. Dates may be adjusted depending on the number and complexity of issues raised in submissions and any meetings with stakeholders.

Process Stage	Indicative date
Procedure Change Proposal published	27 June 2017
Submissions due on Procedure Change Proposal	25 July 2017
Procedure Change Report published	10 September 2017
Proposed commencement of revised Market Procedure	1 October 2017

Prior to the submissions due date, stakeholders may request a meeting with AEMO to discuss the issues and proposed changes raised in this Procedure Change Proposal.

2. BACKGROUND

2.1 Regulatory requirements

Clauses 4.9.10 and 4.28C.15 of the WEM Rules provide that:

4.9.10. *AEMO must document the procedure that:*

- a) *Market Participants must follow in the process of applying for Certified Reserve Capacity; and*
- b) *AEMO must follow in processing applications for Certified Reserve Capacity, including how Certified Reserve Capacity is assigned and Reserve Capacity Obligation Quantities are set,*

in a Market Procedure. AEMO and Market Participants must follow that documented Market Procedure when Market Participants are applying for Certified Reserve Capacity and when AEMO is processing those applications.

4.28C.15. *AEMO must document the process for applying for and approving Capacity Credits in accordance with this clause 4.28C in a Market Procedure, and AEMO and Market Participants must follow that documented Market Procedure.*

The proposed Market Procedure would be the seventh version of this procedure. AEMO proposes to commence the revised procedure on 1 October 2017, at the same time as commencement of some of the relevant Amending Rules.

2.2 Context for this consultation

On 31 May 2016, the Minister for Energy gazetted amendments to the WEM Rules related to the Reserve Capacity Mechanism.¹

The Final Report² indicated these reforms addressed the problem of excess capacity in the South West Interconnected System (SWIS) by making the Reserve Capacity Mechanism more responsive to market conditions; that is, more responsive to the level of capacity in the market relative to the Reserve Capacity Requirement. There were four principal elements of the reforms.

1. Adoption of a three-year ahead auction as the basis for procurement and pricing of capacity, following a period of transition.
2. Changes to the capacity price formula for a transition period prior to the auction, that involves maintaining the existing administered price mechanism but with a steeper pricing curve and a different pricing arrangement for demand side management capacity.
3. Implementation of measures to harmonise demand side management availability requirements with requirements for conventional generators.
4. Stronger commercial incentives for all forms of capacity to be made available for dispatch.

Amendments which commenced on or before 1 July 2016 required corresponding changes to this Market Procedure, but did not provide sufficient time for the Procedure Change Process prior to the commencement of Amending Rules. As a consequence, on 1 June 2016, AEMO published a guideline document (based on the Market Rules as amended) to assist Market Participants in making a Certified Reserve Capacity application. The guideline explained how new processes for Certified Reserve Capacity applications would be applied.

¹ See Government Gazette No.89 dated 31 May 2016, *Electricity Industry (Commencement of Electricity Industry (Wholesale Electricity Market) Amendment Regulations) Order 2016*.

² April 2016, Public Utilities Office, "Final Report: Reforms to the Reserve Capacity Mechanism". Available at: http://www.finance.wa.gov.au/cms/uploadedFiles/Public_Uilities_Office/Electricity_Market_Review/Reforms-to-the-Reserve-Capacity-Mechanism-Final-Report.pdf.



Further rule amendments will commence on 1 October 2017. AEMO has developed this Procedure Change Proposal to incorporate these amendments to the WEM Rules and the amendments that commenced in 2016.

3. PROPOSED PROCEDURE CHANGE

3.1 Detail of the proposed procedure change

AEMO proposes to update the Procedure to:

- Reflect the amendments to the WEM Rules which commenced on or before 1 July 2016. These amendments varied the process Market Participants must follow in applying for Certified Reserve Capacity and Early Certified Reserve Capacity, and that AEMO must follow in processing those applications. These changes were captured in the guideline published by AEMO on 1 June 2016.
- Reflect the amendments to the WEM Rules which will commence on 1 October 2017. These amendments introduce the new Appendix 10, which details the process to determine Relevant Demand for Demand Side Programmes.

3.2 Proposed drafting

AEMO has published a draft of the proposed Market Procedure: Certification of Reserve Capacity for consultation, which is available at:

http://www.aemo.com.au/Stakeholder-Consultation/Consultations/AEPC_2017_04.

AEMO has provided a version with changes tracked.

3.3 Consultation to date

AEMO understands that the Market Advisory Committee (MAC) will establish a new Working Group in the coming months to advise AEMO on Market Procedures. Until this Working Group is formally established, AEMO will convene ad hoc workshops to advise on Market Procedures, especially those for which amendments are required for gazetted rule amendments commencing on 1 October 2017.

A draft version of the Market Procedure was presented at the AEMO WEM Procedure Change workshop held on 29 May 2017. Details of this forum are available at: <http://aemo.com.au/Stakeholder-Consultation/Industry-forums-and-working-groups/WA-Forums>.

Stakeholders recommended minor changes to improve clarity. These minor changes have been incorporated into the proposed Market Procedure that forms part of this Procedure Change Proposal.

3.4 Consistency with WEM Rules, Electricity Industry Act and WEM Regulations

The proposed revised WEM Market Procedure has been reviewed as a whole by AEMO to ensure compliance with the relevant provisions in the:

- Electricity Industry Act;
- WEM Regulations; and
- WEM Rules.

3.5 Consistency with Wholesale Market Objectives

The steps outlined in this revised Market Procedure describe the process Market Participants must follow in applying for Certified Reserve Capacity or Early Certified Reserve Capacity, and that AEMO must follow in processing those applications, that include assigning Certified Reserve Capacity, setting Reserve Capacity Obligation Quantities, and approving Early Certified Reserve Capacity.



AEMO considers that the steps are drafted in a way that does not change the objectives of the Market Rules. As a result, AEMO considers that the revised Procedure, as a whole, is consistent with the Wholesale Market Objectives.



4. CONSULTATION PROCESS

AEMO invites stakeholders to suggest alternative options or drafting where they consider that these would improve the procedure or better meet the Wholesale Market Objectives in section 122(2) of the Electricity Industry Act (and clause 1.2.1 of the WEM Rules).

Stakeholders are invited to submit written responses on the proposed Market Procedure by 5.00 pm (AWST) on 25 July 2017, in accordance with the call for submissions published with this paper.

Stakeholders with questions in relation to the proposed Market Procedure or this Procedure Change Proposal can contact AEMO via email to wa@aemo.com.au.

All correspondence in relation to this Procedure Change Proposal must be entitled “AEPC_2017_04 Certification of Reserve Capacity - [Name of the submitting company or individual]”.