



WHOLESALE ELECTRICITY MARKET

PROCEDURE CHANGE PROPOSAL: AEPC_2017_05

MARKET PROCEDURE: INDIVIDUAL RESERVE CAPACITY
REQUIREMENTS

Published: **July 2017**





© 2017 Australian Energy Market Operator Limited. The material in this publication may be used in accordance with the [copyright permissions on AEMO's website](#).



EXECUTIVE SUMMARY

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

This Market Procedure is required by clause 4.28.12 of the WEM Rules which requires AEMO to document the process to be followed in initially calculating, and subsequently revising, Individual Reserve Capacity Requirements.

AEMO proposes to update the Procedure to increase clarity and update to the current format, reflect the amendments to the WEM Rules that were gazetted by the Minister for Energy on 31 May 2016, the last of which will commence on 1 October 2017, and to clarify the format in which Market Customers must provide the information specified in clause 4.28.8 of the WEM Rules.

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_05.

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

3 August 2017, in accordance with the call for submissions published with this Procedure Change Proposal.



CONTENTS

EXECUTIVE SUMMARY	1
1. PROCEDURE CHANGE PROCESS	3
2. BACKGROUND	4
2.1 Regulatory requirements	4
2.2 Context for this consultation	4
3. PROPOSED PROCEDURE CHANGE	5
3.1 Detail of the proposed procedure change	5
3.2 Consultation to date	5
3.3 Consistency with WEM Rules, Electricity Industry Act and WEM Regulations	5
3.4 Consistency with Wholesale Market Objectives	5
4. CONSULTATION PROCESS	7



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	6 July 2017
Submissions due on Procedure Change Proposal	3 August 2017
Procedure Change Report published	14 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

Clause 4.28.12 of the WEM Rules provides that:

4.28.12. AEMO must document the process to be followed in initially calculating, and subsequently revising, Individual Reserve Capacity Requirements in a Market Procedure, and AEMO and Market Customers must follow that documented Market Procedure.

The proposed Market Procedure would be the third version of this procedure. AEMO proposes to commence the revised procedure on 1 October 2017.

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.

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_Utility_Office/Electricity_Market_Review/Reforms-to-the-Reserve-Capacity-Mechanism-Final-Report.pdf.

3. PROPOSED PROCEDURE CHANGE

3.1 Detail of the proposed procedure change

AEMO proposes to update the Procedure to:

- Increase clarity and update the current format.
- Reflect the amendments to the WEM Rules that were gazetted by the Minister for Energy on 31 May 2016, the last of which will commence on 1 October 2017. These amendments include changes to Appendix 5 of the WEM Rules.
- Clarity on the format in which Market Customers must provide the information specified in clause 4.28.8 of the WEM Rules

3.2 Proposed drafting

AEMO has published a draft of the proposed Market Procedure: Individual Reserve Capacity Requirements for consultation, available at: http://www.aemo.com.au/Stakeholder-Consultation/Consultations/AEPC_2017_05. AEMO has also provided a marked-up version of the revised Market Procedure.

3.3 Consultation to date

AEMO understands that the Market Advisory Committee (MAC) will formalise the establishment of 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 provide advice on Market Procedures, particularly 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 26 June 2017. Details of this forum are available at: <http://aemo.com.au/Stakeholder-Consultation/Industry-forums-and-working-groups/WA-Forums>.

Minor changes to improve clarity were recommended by stakeholders. 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 processes to be followed by:

- a) Market Customers in providing information relating to their loads and demand side management arrangements for the determination of their IRCR on an annual basis and/or on a monthly basis.
- b) AEMO in respect of determination of the yearly IRCR and in calculating and publishing the Monthly IRCR.



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 3 August 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_05 Individual Reserve Capacity Requirements - [Name of the submitting company or individual]”.