



INDEPENDENT  
MARKET  
OPERATOR

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## Wholesale Electricity Market Procedure Change Proposal

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Procedure Change ID: PC\_2013\_05

### Change requested by

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<b>Date submitted:</b>	14 July 2014
<b>Urgency:</b>	2-medium
<b>Procedure change title:</b>	Changes to Market Procedure: Reserve Capacity Security
<b>Market Procedure(s) affected:</b>	Market Procedure: Reserve Capacity Security

### Introduction

The IMO or System Management, as applicable, may initiate the Procedure Change Process by developing a Procedure Change Proposal. Rule Participants may notify the IMO or System Management, as applicable, where they consider an amendment or replacement of a Market Procedure would be appropriate.

If an Amending Rule requires the IMO or System Management to develop new Market Procedures or to amend or replace existing Market Procedures, then the IMO or System Management, as applicable, is responsible for the development, amendment, or replacement of Market Procedures so as to comply with the Amending Rule.

Market Procedures:

- (a) must:
- i. be developed, amended or replaced in accordance with the process in the Wholesale Electricity Market (WEM) Rules (Market Rules);
  - ii. be consistent with the Wholesale Market Objectives;
  - iii. be consistent with the Electricity Industry Act, the Electricity Industry (Wholesale Electricity Market) Regulations and the Market Rules; and

- (b) may be amended or replaced in accordance with clause 2.10 of the Market Rules and must be amended or replaced in accordance with clause 2.10 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.

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## Details of Procedure Change Requested

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### 1. Provide a reason for the proposed new, amended or replacement Market Procedure:

#### Background

The Market Procedure: Reserve Capacity Security (Market Procedure) provides further detail on issues related to the:

- (a) determination and notification of the requirement for Reserve Capacity Security;
- (b) arrangements for Market Participant's to provide Reserve Capacity Security;
- (c) assessing Reserve Capacity Security arrangements;
- (d) maintenance and replacement of Reserve Capacity Security;
- (e) conditions that must be fulfilled for the return of Reserve Capacity Security; and
- (f) application of monies drawn upon from Reserve Capacity Security.

The IMO developed the Rule Change Proposal: Prudential Requirements (RC\_2012\_23<sup>1</sup>) where certain amendments are proposed to clauses 4.13.1, 4.13.2C, 4.13.3, 4.13.4 and 4.13.5 of the Market Rules that outline the obligations for Market Participants and the IMO with respect to the provision, maintenance and replacement of Reserve Capacity Security. The IMO has developed this Procedure Change Proposal to propose amendments to the Market Procedure to ensure consistency with the Amending Rules in RC\_2012\_23 that commenced on 1 May 2014.

It should be noted that the IMO has applied the latest IMO template and styles to the Market Procedure. As a result, a marked-up version of the Market Procedure has not been provided.

## Consultation

The IMO presented the proposed amended Market Procedure to the IMO Procedure Change and Development Working Group (IMOPWG) at the 1 May 2014 meeting. The following comments were raised:

- Mr John Rhodes noted that the head of power clauses that provide for the IMO's obligations to maintain and publish the list of entities meeting the Acceptable Credit Criteria were similar in both the Prudential Requirements section and the Reserve Capacity Security section of the Market Rules. He therefore considered it appropriate to include these obligations in both Market Procedures to the extent possible. The IMO committed to reviewing the head of power clauses and amending the Market Procedure and the Procedure Change Proposal accordingly.
- Mr Rhodes also noted that it would be preferable to add a cross-reference to the determination of Commercial Operation in steps 8.1.1(b) and 8.2.1(b) of the Market Procedure and requested clarifying that this determination is made in accordance with the Market Rules.
- Mr John Nguyen queried certain operational matters in relation to the requirement for Reserve Capacity Security.

At this meeting, the IMO also circulated the process flowcharts accompanying the relevant sections of the Market Procedure and invited feedback from IMOPWG members. The IMO has also included these flowcharts in the proposed amended Market Procedure.

## Proposed Amendments

The key areas of the Market Procedure that the IMO proposes to amend are discussed below.

### 1. Reserve Capacity Security Arrangements

In RC\_2012\_23, the IMO proposed amendments to clauses 4.13.1, 4.13.2C, 4.13.3, 4.13.4 and 4.13.5 of the Market Rules to:

- (a) provide greater clarity to Market Participants with respect to their obligations to provide and maintain the required amount of Reserve Capacity Security; and

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<sup>1</sup> Available on the Market Web Site: [http://www.imowa.com.au/RC\\_2012\\_23](http://www.imowa.com.au/RC_2012_23).

- (b) retain the principles in the Market Rules and move the prescriptive detail in relation to timelines for providing Reserve Capacity Security and circumstances which may necessitate replacement Reserve Capacity Security, into the Market Procedure.

As a result, the IMO proposes to amend sections 5, 6 and 7 of the Market Procedure to provide further detail in relation to the processes to be followed by Market Participants and the IMO to ensure that adequate Reserve Capacity Security is provided and maintained.

It should be noted that the procedure steps related to Reserve Capacity Security arrangements are similar to those related to Credit Support arrangements. The IMO proposed amendments to the steps related to Credit Support arrangements in the Market Procedure: Prudential Requirements in the Procedure Change Proposal: Changes to the Market Procedure for Prudential Requirements (PC\_2013\_04<sup>2</sup>). To the extent the steps are similar between this Market Procedure and the Market Procedure: Prudential Requirements, the IMO has used consistent language throughout both Market Procedures.

## **2. Acceptable Credit Criteria**

The IMO reviewed the obligations related to Acceptable Credit Criteria in PC\_2013\_04, resulting in amendments to step 4.1 of the Market Procedure: Prudential Requirements.

As obligations related to Acceptable Credit Criteria are the same for Reserve Capacity Security arrangements, the IMO proposes to amend section 5.5 of this Market Procedure to require Market Participants to follow the obligations outlined in step 4.1 of the Market Procedure: Prudential Requirements.

Further, the IMO proposes to reduce the detail provided in relation to its obligations to publish and maintain the list of entities meeting the Acceptable Credit Criteria (as outlined in clauses 2.38.7, 2.38.8 and 2.38.9 of the Market Rules) in the Market Procedure: Reserve Capacity Security. The IMO considers that these obligations are more appropriately addressed in step 4.2 of the Market Procedure: Prudential Requirements. The IMO considers that reiterating those obligations in this Market Procedure is unnecessary, and as the process is reviewed and amended, inconsistencies may develop between the two Market Procedures. The IMO has therefore retained a high-level description of the obligation in this Market Procedure and linked steps 5.5.4 and 5.5.5 to step 4.2 of the Market Procedure: Prudential Requirements.

## **3. Other Amendments**

The IMO has also taken the opportunity to update this Market Procedure to:

- (a) improve its readability and usability;
- (b) include Market Rule references where relevant; and
- (c) reflect the latest IMO format and style.

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<sup>2</sup> Available at: [http://www.imowa.com.au/PC\\_2013\\_04](http://www.imowa.com.au/PC_2013_04). The revised amended Market Procedure: Prudential Requirements commenced on 1 May 2014 together with the Amending Rules in the Rule Change Proposal: Prudential Requirements (RC\_2012\_23).

## Call for Submissions

The IMO is seeking submissions regarding this proposal. The submission period is 20 Business Days from the publication of this Procedure Change Proposal. Submissions must be delivered to the IMO **by 5:00 PM on Monday, 11 August 2014**.

The IMO prefers to receive submissions by email to [market.development@imowa.com.au](mailto:market.development@imowa.com.au) using the submission form available on the following webpage: <http://www.imowa.com.au/procedure-changes>.

Submissions may also be sent to the IMO by fax or post, addressed to:

**Independent Market Operator**

Attn: Group Manager, Development and Capacity

PO Box 7096

Cloisters Square, Perth WA 6850

Fax: (08) 9254 4399

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## 2. Provide the wording of the amended Procedure

The proposed amended Market Procedure is provided as an attachment to this proposal.

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## 3. Describe how the proposed changes to the Market Procedure would be consistent with the Market Rules, the Electricity Industry Act and Regulations

The proposed amended Market Procedure has been reviewed as a whole by the IMO to ensure compliance of the Market Procedure with the relevant provisions in the:

- Electricity Industry Act;
  - Regulations; and
  - Market Rules.
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## 4. Describe how the proposed changes to the Market Procedure would be consistent with the Wholesale Market Objectives

The steps described in the proposed amended Market Procedure will facilitate the Reserve Capacity Security obligations to be met by Market Participants and the IMO, as described in clause 4.13 of the Market Rules. Specifically, the IMO considers that the proposed amendments to the Market Procedure:

- (a) support the operation of the Amending Rules in RC\_2012\_23, which better achieve:
  - i. Wholesale Market Objective (a) by improving the management of timelines and processes around Credit Support and Reserve Capacity Security arrangements,

thereby promoting overall financial security in the market; and

ii. Wholesale Market Objective (b) by increasing transparency of Market Participants' and the IMO's obligations, thereby reducing barriers to entry for new entrants in the market;

(b) document the current process and obligations, thereby improving transparency of the Reserve Capacity Security process; and

(c) enhance the overall readability and usability of the Market Procedure.

For these reasons, the IMO considers that the proposed amended Market Procedure, as a whole, is consistent with the Wholesale Market Objectives.

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