



Independent Market Operator

Procedure Change Report

**Title: New Market Procedure:
Supplementary Reserve
Capacity**

Ref: PC_2010_08

Date: 9 January 2012

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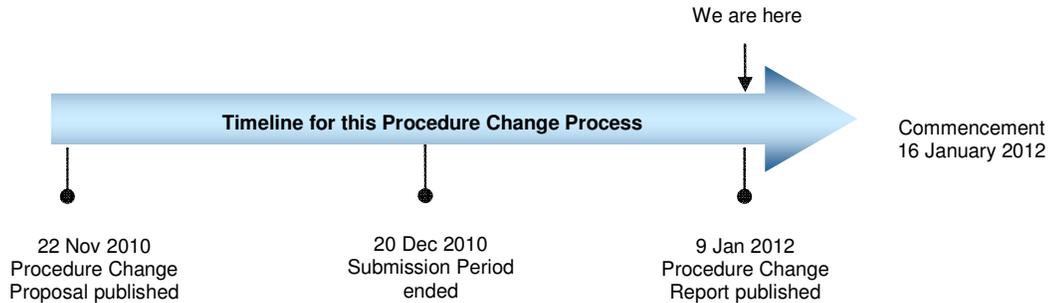
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1. INTRODUCTION

On 22 November 2010, the Independent Market Operator (IMO) published a Procedure Change Proposal titled “New Market Procedure: Supplementary Reserve Capacity”. The proposal has been processed according to the Procedure Change Process under clause 2.10 of the Wholesale Electricity Market Rules (Market Rules).

The key dates in processing this Procedure Change Proposal are:



2. THE PROCEDURE CHANGE PROPOSAL

2.1 Details of the Proposal

The proposed new Market Procedure for Supplementary Reserve Capacity (SRC) was developed to describe the process which the IMO and System Management must follow in:

- acquiring Eligible Services;
- entering into Supplementary Capacity Contracts; and
- determining the maximum contract value per hour of availability for any Supplementary Capacity Contract.

The proposed new Market Procedure was discussed by the IMO Market Procedures Working Group at its 13 August 2009, 22 April 2010 and 26 October 2010 meetings. Minutes from these meetings are available at: <http://www.imowa.com.au/IMO-Procedures-Working-Group>

Full details of the Procedure Change Proposal are available at: http://www.imowa.com.au/PC_2010_08

3. PUBLIC CONSULTATION PERIOD

3.1 Submissions received

The public submission period was between 23 November 2010 and 20 December 2010. The IMO received two submissions during the submission period, from Landfill Gas & Power (LGP) and Synergy.

Both submissions are summarised below with the full text available on the IMO website.

LGP supported the general thrust of the proposed changes but had several comments regarding:

- timing of SRC procurement;
- length of SRC procurement;
- inclusion of potential trigger events for SRC;
- nature of tender responses;
- clarification of terms;
- consequences for failing to comply with a contract; and
- provision of an SRC Dispatch Merit Order (DMO).

LGP considered that, conditional on the proper review of its comments, the proposal is consistent with the Wholesale Market Objectives and Amending Rules.

Synergy's submission included:

- concerns regarding a number of the calculations contained in the procedure;
- a request for clarification regarding how the Notional Activation Price becomes double the Alternative Maximum STEM Price;
- a concern with the use of the National Electricity Market Value of Lost Load (VoLL) for Demand Side Management (DSM) as it considers the price has little relevance to the Wholesale Electricity Market; and
- a query regarding the advertisement of tenders.

The IMO's responses to the issues raised in submission by LGP and Synergy are provided in section 3.2 of this report.

3.2 The IMO's response to submissions

The IMO's responses to the issues raised by LGP and Synergy are included in the following table.

Step / Issue	Submitter	Comment / Change Requested	IMO response
Timing of SRC procurement	LGP	<p>SRC procurement only applies to the Hot Season. LGP considers that this focus is misplaced because:</p> <ul style="list-style-type: none"> Capacity is already strongly incentivised to be available during the Hot Season; and Contingency events can occur at any time and potentially take out generators en masse. 	<p>The IMO notes that SRC procurement is not limited to the Hot Season. However, the IMO considers that the need for SRC is likely to be greatest in the Hot Season, during which the forecast load is higher. In addition, a capacity shortfall arising due to late commissioning of capacity is more likely to occur early in the Capacity Year and include some or all of the Hot Season.</p> <p>For these reasons, the IMO considers it reasonable for the calculation of the Maximum Contract Value to be based on a capacity provider receiving the annual Reserve Capacity Price across the Hot Season. The IMO notes that LGP has not provided an alternative calculation for its consideration.</p>
<p>Length of SRC procurement</p> <p>Steps 1.6.4, 2.3.1(a) and 2.6.2 (h)(i)</p>	LGP	<p>The Market Rules limit the procurement to 12 weeks on the presumption of any calls for SRC being confined to the Hot Season. LGP consider that this is an unnecessary and potentially counter-productive impost.</p>	<p>Clause 4.24.13 of the Market Rules notes that the IMO must maintain a standard form Supplementary Capacity Contract containing (among other things) a blank schedule which specifies the term of the contract, where this term is not to exceed 12 weeks.</p> <p>Clause 4.24.14 of the Market Rules notes that despite the existence of the standard form Supplementary Capacity Contract, the IMO may enter into Supplementary Capacity Contracts in any form it considers appropriate.</p> <p>Therefore the IMO considers that, in certain circumstances, it could procure SRC for a period exceeding 12 weeks (if appropriate).</p> <p>As a result the IMO has removed the proposed step 1.6.4 from the Market Procedure and removed the cap (84 days or 12 weeks) on the value of the parameter 'd' in step 2.3.1(a).</p> <p>The IMO has retained step 2.6.2(h)(i) as originally</p>

Step / Issue	Submitter	Comment / Change Requested	IMO response
			proposed as this is a direct replication of clause 4.12.13(h) of the Market Rules.
Trigger events for SRC assessment	LGP	The proposal is tied to an apparently subjective 12 week decision point via the Market Rules. LGP suggest including a “trigger event” that will require the IMO to assess the need for SRC and better define the time to potential requirement.	<p>Clause 4.24.1 of the Market Rules requires the IMO to seek to acquire SRC if it considers, <u>at any time</u> after the Reserve Capacity Auction has occurred or has been cancelled, that inadequate Reserve Capacity to maintain Power System Security and Power System Reliability will be available in the South West interconnected system (SWIS).</p> <p>The IMO considers that the requirement is sufficient and additional trigger points are not necessary for it to assess the need for SRC.</p> <p>The IMO notes that the 12 week decision point is around how the IMO procures SRC.</p> <ul style="list-style-type: none"> • If the expected start date of the shortfall is <u>at least 12 weeks</u> from the date the IMO becomes aware of the shortfall, then it must call for tenders from potential suppliers of SRC in an invitation to tender (clause 4.24.2(a)). • If the expected start date of the shortfall is <u>less than 12 weeks</u> from the date the IMO becomes aware of the shortfall, then the IMO must either: <ul style="list-style-type: none"> ○ call for tenders from potential suppliers of SRC in an invitation to tender; or ○ negotiate directly with potential suppliers of SRC (clause 4.24.2(b)). <p>The IMO has not included any “trigger events” in the Market Procedure that will require the IMO to assess</p>

Step / Issue	Submitter	Comment / Change Requested	IMO response
Tender responses	LGP	The nature of the required tender responses from potential participants is unclear. Presumably, they are to be asked to bid on price, rather than merely to 'take or leave' a price dictated by the IMO. On this basis, LGP perceives conflict in the Availability Price, Activation Price and Maximum Contract Value defined in clause 2.3.1 a), b) and c) versus clause 2.3.1 d), clause 2.3.2 and clause 2.4.3 j).	<p>the need for SRC as it considers that the obligation in the Market Rules (clause 4.24.1) is sufficient.</p> <p>The IMO notes that the calculation in step 2.3.1(d) contained an error. The calculation of the Maximum Availability Percentage had included the Contract Value, but this value is determined for each individual offer from a provider of Eligible Services and is not known until the offer is received. The equation should have used the Maximum Contract Value. The IMO has amended the equation for the Maximum Availability Percentage accordingly.</p> <p>The IMO also notes that there was a mismatch in the units of the Maximum Contract Value determined in step 2.3.1(c) (in \$/MW/hr) and the Contract Value (in \$/hr) determined in step 2.4.6. To allow for comparison of the values, the IMO has amended step 2.4.3(j) of the Market Procedure such that the Contract Value is converted to a value per megawatt per hour for comparison with the Maximum Contract Value.</p> <p>The IMO also notes that the similarity of the terms Maximum Contract Value and Contract Value may have led to confusion. To minimise this, the IMO has renamed the Contract Value to Tender Value. The IMO considers the term Tender Value to be a more accurate representation, given that the Tender Value is determined prior to entering into Supplementary Capacity Contracts.</p> <p>As noted below, the IMO has removed step 2.3.2, which defined a distinct Maximum Contract Value for load reduction facilities.</p>
Clarification of terms	LGP	LGP suggest clarification of the meaning of "availability price" and "activation price" as these phrases are apparently used to mean different things in clauses 2.3.1(a), (b), (c)	The IMO notes that LGP and Synergy have both submitted on the calculation outlined in the Market Procedure. In particular, there has been confusion

Step / Issue	Submitter	Comment / Change Requested	IMO response
		and (d), 2.3.2, 2.4.3(j), 2.4.6 and 2.5.2.	<p>regarding the distinction between:</p> <ul style="list-style-type: none"> the Notional Availability Price and Notional Activation Price in step 2.3.1, which are constructs that are used in the calculation of the Maximum Contract Value; and the availability price and activation price that are specified by an applicant to provide Eligible Services, <p>The IMO has clarified this distinction by specifically defining the Notional Availability Price and Notional Activation Price. The IMO considers that the use of these terms provides useful information regarding the basis on which the Maximum Contract Value is calculated.</p>
<p>Consequences for failing to comply with a contract</p> <p>Step 2.6.2(e)</p>	LGP	LGP is concerned that the consequences of failing to perform the contract appear to unreasonably enrich a defaulting provider and compromise system security. Specifically, it seems they will be paid an Availability Payment of one year's capacity credits and penalised at only the hourly rate for non-performance.	The IMO notes that this step is a direct replication of the Market Rules (clause 4.24.13 (e)) and that amendments to the Market Rules would require a Rule Change Proposal to be submitted. Market Procedures must be consistent with the requirements outlined in the Market Rules. The IMO has not made any additional amendments to the Market Procedure.
Step 2.6.4	LGP	Amend to read "...IMO may enter into Supplementary Capacity Contracts in any form it considers <u>reasonably</u> appropriate."	This step is a direct replication of clause 4.24.14 of the Market Rules. The IMO has not made any additional amendments to the Market Procedure with regard to this issue.
<p>Provision of an SRC Dispatch Merit Order</p> <p>Steps 2.7.1 and 2.7.2</p>	LGP	LGP suggests requiring the IMO to provide to System Management a Dispatch Merit Order and Operating Guidelines rather than just prohibiting notification of the Activation Price and Availability Price (outlined in step 2.7.2).	<p>The IMO considers that the information in steps 2.7.1(a) and 2.7.1(d), being "<i>the identity of each contracted Eligible Service, listed in order of increasing activation price</i>" and "<i>the limitations on the availability of the Eligible Service</i>", include the same information that is provided to System Management in the Dispatch Merit Order.</p> <p>The IMO also considers that the information in steps</p>

Step / Issue	Submitter	Comment / Change Requested	IMO response
			<p>2.7.1(b) and 2.7.1(c), being “the information required to contact the party which will activate the Eligible Service” and “the process to be followed in activating that Eligible Service, including required advance notification times”, represent Operating Guidelines.</p> <p>The IMO has not made any additional amendments to the Market Procedure. as it considers these matters are sufficiently covered currently.</p>
Clarification of terms and calculations Steps 1.6.5, 2.3.1 and 2.4.6	Synergy	The calculations in the procedure are difficult to work through. References for Availability Price and Activation Price are given in step 1.6.5, and used in step 2.4.6, but Notional Availability Price and Notional Activation Price are used in step 2.3.1.	As noted above, the IMO has clarified this distinction by specifically defining the Notional Availability Price and Notional Activation Price in the Glossary of the Market Procedure. These are constructs that are used in the calculation of the Maximum Contract Value.
Step 2.3.1	Synergy	Update Market Rule reference from clause 4.24.12(h)(i) to clause 4.24.13(h)(i).	The IMO notes that Synergy correctly identified that the clause reference needed updating, however as a result of other submissions received (see the IMO’s response to LGP’s submission on “Length of SRC Procurement” above) the clause reference has been removed from the Market Procedure entirely.
Maximum contract Value Steps 2.3.1 and 2.3.2	Synergy	It is uncertain what purpose the Maximum Contract Value provides except that it is listed in MR 4.24.6 (g).	<p>The Market Rules require the IMO to set a maximum price that it will accept when seeking tenders for SRC (clause 4.24.6 (g)). This figure is the Maximum Contract Value per hour of availability.</p> <p>The IMO notes that this is similar in principle to other price caps that exist in the WEM, specifically the Maximum Reserve Capacity Price and the Maximum and Alternative Maximum STEM Prices.</p>
Maximum contract Value Steps 2.3.1 and 2.3.2	Synergy	It could be argued that the only value applicable for Maximum Contract Value, in the procedure, is the NEM VoLL value, being the payment to DSM, unless the number of expected hours is very low, <5 hours. The Maximum Contract Value can be set on the generator cost, but this would not be the Maximum given DSM can receive up to	As noted below, the IMO has removed step 2.3.2, which defined a distinct Maximum Contract Value for load reduction facilities.

Step / Issue	Submitter	Comment / Change Requested	IMO response
		<p>\$12,500 per MWh and so would be paid at a higher rate than a generator. If the Maximum Contract Value was published on the basis of a generator given DSM higher rate then this would create a problem for MR 4.24.7 (j).</p>	
<p>Calculations Steps 2.3.1(d) & 2.4.6</p>	<p>Synergy</p>	<p>The calculation of the Maximum Availability Percentage is split between steps 2.3.1 d) and 2.4.6 making it difficult to determine its value. Also uncertain if this value is used apart from reducing the Availability Price, no indication is given that it is used to add to the Activation Price.</p>	<p>The Maximum Availability Percentage was designed to limit the proportion of the total contract price that can be paid in the form of an availability payment, with the activation payment comprising the remainder of the contract value. If this is not specified, a provider of an Eligible Service may specify that its full compensation be in the form of an availability payment. In this situation, the provider is not paid for activation of the service and the incentive for the provider to activate the service may be diminished.</p> <p>This concept was added to the proposed Market Procedure following the 22 April 2010 meeting of the IMO Procedure Change and Development Working Group. At this meeting, Mr John Rhodes noted the importance in ensuring that a provider of an Eligible Service had sufficient incentive, through the activation payment, to activate the Service if dispatched.</p> <p>The IMO has retained the concept of the Maximum Availability Percentage in the Market Procedure. However, as noted above, the IMO has corrected an error in the calculation of the Maximum Availability Percentage, replacing Contract Value with Maximum Contract Value. This removes the link between steps 2.3.1(d) and 2.4.6.</p>
<p>Calculations</p>	<p>Synergy</p>	<p>Considers that it may be helpful to include examples for all the calculations in the Market Procedure to remove the possibility of confusion.</p>	<p>The IMO agrees with Synergy's suggestion and has included example calculations of the Maximum Contract Value and Maximum Availability Percentage in Appendix 1 of the Market Procedure.</p>

Step / Issue	Submitter	Comment / Change Requested	IMO response
Charges Step 2.3.1(b)	Synergy	<p>Uncertain how the Notional Activation Price becomes double the Alternative Maximum STEM Price. This appears to be arbitrary and unnecessary.</p> <p>The key question is why double given the expected cost of production is unlikely to be this high (i.e. unlikely to exceed the cost of liquids which is represented by the Alternative Maximum STEM Price). If this is intended to be an upper value negotiated with the capacity provider then by stating a value in the procedure, at such a high value, could establish this as the price that SRC providers would expect i.e. it establishes unreasonably market expectations.</p>	<p>The IMO considers that the most likely providers of SRC would be load reduction facilities and small liquid-fuelled generation facilities (for example, standby generators).</p> <p>While the Alternative Maximum STEM Price would enable the generation Facility to cover fuel purchase costs, the IMO considers it likely that a small liquid-fuelled generation facility would lack the economies of scale of larger generation facilities (the determination of the Alternative Maximum STEM Price is based a 40 MW generator). Additional operating costs are likely to be incurred in maintenance, fuel delivery and fuel storage. Consequently, the IMO considers that the doubling of the Alternative Maximum STEM Price is appropriate to allow recovery of higher costs.</p> <p>In addition, the IMO considers that uplift is required to encourage participation by potential SRC providers who have chosen not to provide this capacity to the market previously.</p> <p>Consequently, the IMO has not changed the notional activation price.</p>
2.3.2	Synergy	<p>For DSM the use of the NEM VoLL price has little relevance to the WEM. Again, by stating this price in this procedure potentially creates a market price locking in \$12,500 per MWh. An option to consider is leaving this price blank and determining it in the year SRC may be required. The issue with taking a NEM price for DSM but creating a different price basis for generators is that no clear and consistent value basis for SRC has been determined. Also the relation between generator and DSM prices will vary given the expected hours of dispatch. Refer to the following example which shows the procedure could potentially result in range of relative (or strange) pricing outcomes. This could prove</p>	<p>The IMO acknowledges Synergy's concern with regard to the use of the "market price cap" from the National Electricity Rules. The IMO notes that the IMO Procedure Change and Development Working Group had also raised concern regarding the use of this value.</p> <p>The IMO also acknowledges Synergy's submission, including the example calculation, with regard to the potential for disparity between the Maximum Contract Values for generation and load reduction facilities.</p>

Step / Issue	Submitter	Comment / Change Requested	IMO response
		to be a point of contention for both generators and DSM capacity providers.	The IMO has removed step 2.3.2 of the Market Procedure, which defined a different Maximum Contract Value for load reduction facilities and took into account the value of the “market price cap” from the National Electricity Rules.
Advertisement of tenders Step 2.4.5	Synergy	The Maximum Availability Percentage is stated as being required to be included in the advertisement under step 2.4.5 but this is not included as a requirement in the Market Rules.	<p>The IMO notes that clause 4.24.6 of the Market Rules outlines items of information that the advertisement must include. The IMO considers that clause 4.24.6 does not preclude the IMO from including additional information in the advertisement.</p> <p>The IMO considers that this information would be a useful addition to the advertisement (where appropriate), and has therefore retained this in step 2.4.5.</p>

4. ADDITIONAL AMENDMENTS MADE BY THE IMO FOLLOWING THE PUBLIC CONSULTATION PERIOD

In addition to the amendments to the Market Procedure outlined in section 3.2 of this paper, the IMO has:

- included the new section 1.6 “Terminologies and Definitions”, including a list of defined terms, consistent with recent amendments to other Market Procedures;
- included the following words at the start of step 2.1.1(b) “using the most recent published forecasts, identify the level of...”. This is as a result of RC_2010_35¹. The IMO signalled that it would make this change in the final report in its Procedure Change Proposal;
- replaced the term Curtailable Load with Demand Side Programme for consistency with RC_2010_29²; and
- amended step 2.3.1(c) to refer to ‘t’ in the first set of brackets rather than ‘d’.

5. THE IMO’S ASSESSMENT

Clause 2.9.3(a) of the Market Rules requires that Market Procedures must be:

- developed, amended or replaced in accordance with the process in the Market Rules;
- consistent with the Wholesale Market Objectives; and
- consistent with the Market Rules, the Electricity Industry Act and Regulations.

The IMO has undertaken an assessment of the proposed amendments in light of the requirements outlined in the Market Rules, including the implementation of any required procedural or system amendments. The IMO’s assessment is outlined in the following sub-sections.

5.1 Wholesale Market Objectives

The proposed new Market Procedure for Supplementary Reserve Capacity outlines how the IMO will acquire, price and review the provision of SRC. The IMO considers that the steps are drafted in a way that does not change the operation or objectives of the Market Rules. As a result, the IMO considers that the new Market Procedure for Supplementary Reserve Capacity, as a whole, is consistent with the Wholesale Market Objectives.

5.2 Wholesale Market Rules, the Electricity Industry Act and Regulations

The IMO considers that the proposed amended Market Procedure is consistent, as a whole, with the Market Rules, the Electricity Industry Act and Regulations.

The IMO also considers that the Market Procedure is consistent with all other Market Procedures.

5.3 Views expressed in submissions

¹ For more information please refer to www.imowa.com.au/RC_2010_35

² For more information please refer to www.imowa.com.au/RC_2010_29

The IMO received two submissions from LGP and Synergy. Both submissions raised concerns about the proposal Market Procedure and provided suggestions for its enhancement.

The IMO's responses to these submissions are included in section 3.2 of this report.

5.4 Implementation of the Market Procedure

The Market Procedure will not require Rule Participants or the IMO to implement any procedural or system amendments before it can commence. Consequently, the IMO considers that commencement at 8:00am on 1 January 2012 will allow Rule Participants sufficient time from the date of publication of this Procedure Change Report to ensure compliance with the amended Market Procedure.

5.5 Views of the Market Advisory Committee or a Working Group delegated to consider the Procedure Change Proposal

The MAC has delegated the role of considering IMO Procedure Change Proposals to the IMO Procedure Change and Development Working Group (Working Group) (clause 2.3.17(a)).

The Working Group was presented the Procedure Change Proposal at its 13 August 2009, 22 April and 26 October 2010 meetings. Specific details of the Working Group discussions are available in Appendix 1 of this report. A full copy of the minutes is available at: <http://www.imowa.com.au/IMO-Procedures-Working-Group>.

As this was a new Market Procedure, the IMO considered that the MAC should also have the opportunity to discuss it, while it was out for consultation. As such, the IMO presented the new market Procedure at the 8 December 2010 MAC meeting. The MAC noted the Market Procedure.

7. THE AMENDED MARKET PROCEDURE

7.1 Commencement

On the basis of the IMO's assessment, the new Market Procedure for Supplementary Reserve Capacity will commence at 8.00am on 1 January 2012.

7.2 The Amended Market Procedure

The new Market Procedure for Supplementary Reserve Capacity is attached to this report and is also available on the IMO's website: http://www.imowa.com.au/PC_2010_08

APPENDIX 1: DISCUSSION AT THE IMO PROCEDURE CHANGE AND DEVELOPMENT WORKING GROUP

The Working Group was presented the Procedure Change Proposal at its 13 August 2009, 22 April and 26 October 2010 meetings. Specific details of the Working Group discussions are outlined below. A full copy of the minutes is available at: <http://www.imowa.com.au/IMO-Procedures-Working-Group>.

Note that the step references below refer to the draft Market Procedure presented to each respective meeting. The draft Market Procedure version considered at each meeting can be found in the respective meeting papers, which are also available at: <http://www.imowa.com.au/IMO-Procedures-Working-Group>.

August 2009 meeting:

- Step 2.1: it was noted that there was no obligation for the IMO to consult with System Management about the amount of SRC required. The Working Group discussed that the IMO should consider a market wide consultation especially as Market Participants are liable for the cost. It was noted that this would need to be an informal mechanism due to the timing of SRC requirements. The IMO agreed to consider building an informal mechanism for consulting with System Management regarding the need for calling SRC and predicting any major plant outages.
- Step 2.1: how the IMO determined a major plant outage was discussed. It was suggested that a definition of a major plant outage could be where it has the potential to lead to a capacity shortfall.
- Step 2.1.1(c): the IMO agreed to amend the wording to be more concise.
- Step 2.1.1(e): the IMO agreed to include a requirement to consult with System Management
- Step 2.2.1: the IMO agreed to expand the process for monitoring the shortfall in the procedure,
- Step 2.3: there was a comment that this section was hard to follow, particularly how the Maximum Availability Price is prorated. The IMO agreed to review this section and report back to the Working Group.
- Step 2.3: it was suggested that prices should be listed in \$/MW and not \$/MWh as it would be difficult to rank. The IMO agreed to explore this. It was also questioned if this section attempts to pre-empt prices without testing the market.
- Step 2.4.1: the IMO agreed to amend the wording of "...if the IMO decides to follow..." , to "the IMO must follow"
- Step 2.4.3(j): the numbering and wording needed to be corrected. It was also questioned whether the maximum contract value per hour of availability was measured as \$/MWh. The IMO noted that this was in clause 4.24.7 of the Market Rules,
- Step 2.4.5(h): the IMO agreed to amend the wording to "...the IMO's website" for clarity,³

³ Note that the IMO subsequently decided to retain the term Market Web Site, consistent with the Market Rules. All subsequent drafts of the Market Procedure have included the original term.

- Step 2.5.1 (c)(v): a member commented that this clause appeared difficult to implement but understood the probity reasons behind it. The IMO confirmed that this was consistent with the Market Rules but agreed to add this to the issues log to look at in more detail,
- Step 2.6.2(a): a member saw the exclusion of “force majeure” as problematic but it was noted that chapter 4 of the Market Rules specifically excludes this,
- There was concern regarding the liability of the contract in the event that energy cannot be provided from the provider’s perspective. It was noted that the Market Rules provide for SRC to be called when generators fail during normal periods but do not provide a mechanism for the IMO to recover costs from a generator who fails to provide SRC. A limit on the liability was suggested as a solution but another member commented that there should not be liability or obligations for providers. The IMO noted that it was currently dealing with liquidated damages and limitation of liability clauses in the pro forma Network Control Services contracts and agreed to investigate this issue further for the pro forma supplementary capacity contracts,
- Step 2.6.2(e): it was suggested the IMO elaborate on the consequences this might have for Demand Side Management (DSM), the IMO agreed to investigate this further,
- Step 2.6.2(h): a member commented that step 2.7.1 requires the limits of availability. This is to cater for certain types of load that need to be on during certain periods. The IMO noted that this is the standard contract and special contracts will take this into account; and
- Step 2.7: a member queried where eligible service sits in the Dispatch Merit Order (DMO) and requested clarity on whether two DMO’s would be provided and what to do if two orders were received. The IMO noted the comments and agreed to investigate.

April 2010 meeting:

- The IMO noted that liquidated damages and limitation of liability clauses would be treated outside of the procedure. It was noted that to keep any SRC contracts attractive, the IMO would need to balance the risk of becoming onerous and burdensome,
- The IMO stated that the intent is for Eligible Services to be included on the DMO and noted that this was being confirmed as occurring in the IMO systems. System Management requested they be provided with the conclusions from the investigation to allow them to ensure that their systems would allow for SRC to be included on the DMO,
- Step 2.1: it was noted that there was no obligation on the IMO to publish the shortfall. The IMO clarified that this would be included in the tender,
- Step 2.3.2: the use of VoLL was discussed. The IMO responded that capacity may need to be sourced from the Eastern States and would need to be competitive with NEM prices. A member noted that VoLL needs to only be high enough to generate a reallocation of existing capacity in Western Australia to achieve an outcome. This contrasts with the approach in the NEM where VoLL prices need to be high enough to encourage new capacity,
- Step 2.3.2: Another member noted that the maximum price offered to provider of SRC need to reflect the value of the additional capacity to the market.

Additionally, it was noted that the providers will likely offer the maximum contract price in their bid. It was queried if the VoLL would be too high a price.

- Step 2.3.2: A member noted that theoretically the appropriate price would be the maximum energy price as all existing capacity would have already been paid for by the market.
- The Working Group agreed that there is not a sufficient link between the VoLL in the NEM and the prices required encourage the provision of SRC in Western Australia. The IMO agreed to consider an appropriate alternative. Additionally, the IMO clarified that it would retain the option of specifying a cap on the availability price.
- The IMO agreed to provide members with a copy of the standard form contract for SRC to help them understand the methodology for determining the Maximum Contract Value,
- A member noted that decisions to run DSM are influenced by the differential between the availability and activation price. The member noted that the proposed methodology is more heavily weighted towards availability payments. The more that is paid via the availability price, the lower the activation price will be and subsequently less incentive to actually provide SRC when called. Another member stated the maximum availability price could be potentially set at zero to provide more flexibility. The IMO noted that step 2.3.4 had been included to ensure correct incentives are provided to SRC suppliers but agreed to update the section to provide greater flexibility.
- The penalty arrangements for failing to provide SRC was discussed with members noting that impossible penalties will have an important role in encouraging commitment and that this level of detail would be expected in any contract. The IMO noted that any punitive arrangements to be included in contracts need to still represent a commercially desirable contract.
- System Management requested that prior to the IMO entering into any SRC contract it is consulted on the dispatch arrangements; and
- the deletion of the publications section 2.9 was queried. The IMO noted that the Market Rules do not expressly allow for the publication of this information. The IMO also noted that it will be considering further changes to Chapter 10 of the Market Rules to allow for the publication of the outcomes of any call for SRC. A member noted that a mechanism is required to provide transparency of the costs so that these can appropriately apportioned.

October 2010 meeting:

- Step 2.1.1(a): a member commented that there should be greater clarity of how the IMO would predict plant outages and questioned whether there would be value in linking to the Medium Term Projected Assessment of System Adequacy (MT PASA). The IMO agreed to include a reference to the MT PASA in step 2.1.1(a) of the procedure,
- Step 2.2.2: how the IMO would decide to call for tenders or negotiate directly with potential SRC supplies was queried. The Chair noted that this was an either/or choice and that if it fails, the Market Rules prohibit the IMO from utilising the other option. The IMO agreed to investigate how it would make the decision and note the outcomes in the Procedure Change Proposal,

- Steps 2.4.7 & 2.5.3: a member noted that step 2.5.3 allows the IMO to accept or reject any proposals for the acquisition of SRC via direct negotiation and suggested that this should also be included in the tender process. The IMO agreed to update the procedure to reflect this,
- Step 2.4.3(j) iii: the IMO to check the Market Rules reference and amend if required,
- Step 2.4.3(j) iv: multiply the formula by “t” not 100, making it similar to the equation in step 2.3.1,
- Step 2.4.6(b): amend the reference to 2.4.3(d),
- Step 2.4.6: remove the semicolon in the formula as it makes the equation unclear,
- Step 2.6.2(f): the Market Rule references should be 4.24.16 and 4.24.17,
- A member noted that the Market Rules use price as \$ per activation hour whereas the procedure the price is as \$ per MWh. The member noted that these are different concepts and that he considered the procedure to be correct,
- A member agreed with the separate Maximum Contract Values for generation and load reduction facilities but queried the use of VoLL and suggested the IMO consider referencing the Reserve Capacity Price instead. It was noted that this was a local value and would therefore be more appropriate which the IMO agreed but then noted that it was a reference based on constructing a generation facility rather than losing a load,
- Step 1.6.1: it was suggested that the second sentence in this step could be a standalone point,
- Step 2.7.2: a member questioned this step and wondered how System Management would be able to economically dispatch Facilities in the absence of pricing information. The Chair clarified that an SRC DMO would be provided, noting that the normal DMO cannot be utilised as it is not a requirement for SRC Facilities to be registered participants,
- Step 2.9.1: a member queried whether the review anticipated in this step should be wider than just the SRC provisions in section 4.24 of the Market Rules. The Chair noted that this clause in the Market Rules was an outworking of the SRC Working Group. The IMO to review the SRC Working Group’s minutes to ascertain the intent of this review.

A Standard Form contract for SRC was provided to the Working Group members for comments which include:

- The IMO to change the address to its current premises,
- Clause 9.3: the acronym AP was used in this clause but AVP and Pav had been used elsewhere. The IMO agree to review all acronyms for consistency; and
- Clause 9.3: a member noted that the definition for FS should the number of Trading Intervals in the day that the Supplier did not provide the service.