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## Wholesale Electricity Market – Procedure Change Proposal

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Procedure Change No: PC\_2012\_01

### Change requested by:

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<b>Procedure change title:</b>	Changes to Market Procedure for Reserve Capacity Security
<b>Market Procedure affected:</b>	Market Procedure for Reserve Capacity Security

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### Introduction

The Independent Market Operator (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 Market Rules;
  - ii. be consistent with the Wholesale Market Objectives; and
  - iii. be consistent with the Market Rules, the Electricity Industry Act and Regulations; and
- (b) may be amended or replaced in accordance with clause 2.10 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:

Following a comprehensive review of the administration of Reserve Capacity Security, several issues with the process were identified by the IMO. To enact the outcomes of the IMO's review, proposed solutions to each of the issues were developed in conjunction with the Market Advisory Committee. For full details of the issues and the proposed solutions refer to the Rule Change Notice for the Rule Change Proposal: Required Level and Reserve Capacity Security (RC\_2010\_12), available from: [http://www.imowa.com.au/RC\\_2010\\_12](http://www.imowa.com.au/RC_2010_12).

As part of the rule change process, the IMO undertook to develop an amended Market Procedure for Reserve Capacity Security (Market Procedure) to incorporate process details around the determination, provision and return of security that were reflective of any amendments resulting from RC\_2010\_12. To facilitate this the IMO proposed to increase the scope of the heads of power for the Market Procedure, to allow for these more operational details to be specified within it, thereby enhancing transparency of the process.

In addition, the IMO has recently identified an issue with regard to the return of Reserve Capacity Security for Demand Side Programmes (DSPs). In particular, the Market Rules and current Market Procedure allow Market Customers with DSPs to shift loads between DSPs simply for the purpose of ensuring the return of Reserve Capacity Security. The IMO considers that this practice would be contrary to the intention of the IMO holding a Reserve Capacity Security for a Facility until such time as it can prove it can meet its capacity obligations. The IMO also notes that this practice would be inconsistent with the treatment of Market Generators who do not have the same flexibility to shift capacity between generation systems under either the Market Rules or Market Procedures.

The IMO proposes to address this issue by allowing each associated Non-Dispatchable Load or Interruptible Load to be considered for the return of only one Reserve Capacity Security in each Capacity Year – that is the first DSP to which it is associated with that meets either the 90% or 100% test. Also, the IMO will not consider the performance of a DSP for the return of Reserve

Capacity Security in Trading Intervals for which the Market Participant has failed to fill its other DSPs.

Overall, the IMO has updated the Market Procedure to:

- reflect the IMO's new format arising from its Market Procedure project;
- reflect the broader heads of power for the Market Procedure;
- reflect the agreed outcomes from the IMO Procedure Change and Development Working Group's discussion (and subsequent out of session submissions);
- address the inconsistency with regard to the return of Reserve Capacity Security; and
- ensure consistency with the proposed Amending Rules that resulted from the following Rule Change Proposals:
  - Reserve Capacity Security (RC\_2010\_12);
  - Certification of Reserve Capacity (RC\_2010\_14);
  - Acceptable Credit Criteria (RC\_2010\_36); and
  - List of Entities meeting the Acceptable Credit Criteria (RC\_2011\_04)

The IMO notes that the proposed amendments were discussed by the IMO Procedure Change and Development Working Group during its 28 March 2011 meeting. A further update to the Market Procedure to reflect the agreed changes from the March 2011 meeting and to incorporate the proposed restriction on the ability of loads to be shifted between DSPs for the purposes of returning a Reserve Capacity Security was provided to Working Group members for out of session comment on 6 December 2011. No comments were received by the IMO on the further amendments. Subsequent, to providing the Market Procedure to the Working Group for comment the IMO has made a few further minor amendments to the Market Procedure to improve its integrity and clarify the associated processes.

For further details of the discussion at the March 2011 Working Group meeting and the IMO's response to submissions received out of session following this meeting refer to the following webpage: <http://www.imowa.com.au/IMO-Procedures-Working-Group>.

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## **2. Provide the wording of the Procedure**

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

- Market Rules;

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

The IMO considers that the proposed amendments to the treatment of loads shifting between DSPs will better Market Objective (c), by removing a current discrimination towards DSPs for the purposes of the return of Reserve Capacity Security while not restricting their ability to shift loads between programmes for other purposes.

The IMO notes that the remainder of the steps described in the proposed amended Market Procedure for Reserve Capacity Security facilitate the process outlined in section 4.13 of the Market Rules, including the determination, provision and return of security. The IMO considers that the steps are drafted in a way that does not change the operation or objectives of the Market Rules.