



Independent Market Operator

**The IMO's decision: Proposed
Replacement Power System
Operation Procedures:**

**Competitive Balancing and Load
Following Market 2**

Ref: PPCL0022

Date: 19 June 2012

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EXECUTIVE SUMMARY

Procedure Change Proposal

System Management proposes to replace the Power System Operation Procedure (PSOP): Power System Security and PSOP: Ancillary Services which have been impacted by the new Balancing and Load Following markets scheduled to commence on Balancing Market Commencement Day¹.

Consultation

- System Management formally submitted the Procedure Change Proposal with a request for submissions closing on 10 February 2012.
- A further consultation period was held in accordance with the public notice published on 19 March 2012. The further consultation period ended on 29 March 2012.
- The replacement PSOPs were discussed by members of the System Management Procedure Change and Development Working Group at its 12 December 2011 meeting (prior to formal submission) and the Rules Development Implementation Working Group at its 22 March 2012 meeting (during the further consultation period).
- One submission was received from Landfill Gas & Power (LGP) during the formal consultation period. Submissions from Alinta and the IMO were received during the further consultation period.

The IMO's Assessment

The IMO has found the proposed amendments to be consistent with the Wholesale Market Objectives, the Market Rules, the Electricity Industry Act and the Regulations.

Practicality and Cost of Implementation

No costs associated with the implementation of the proposed amendments or issues with the practicality of the proposed amendments have been identified by either the IMO or System Management.

The IMO's Decision

The IMO's decision is to accept the proposed replacement PSOP: Power System Security and PSOP: Ancillary Services.

Next steps

The replacement PSOP: Power System Security and PSOP: Ancillary Services will commence at 8.00am on the Balancing Market Commencement Day.

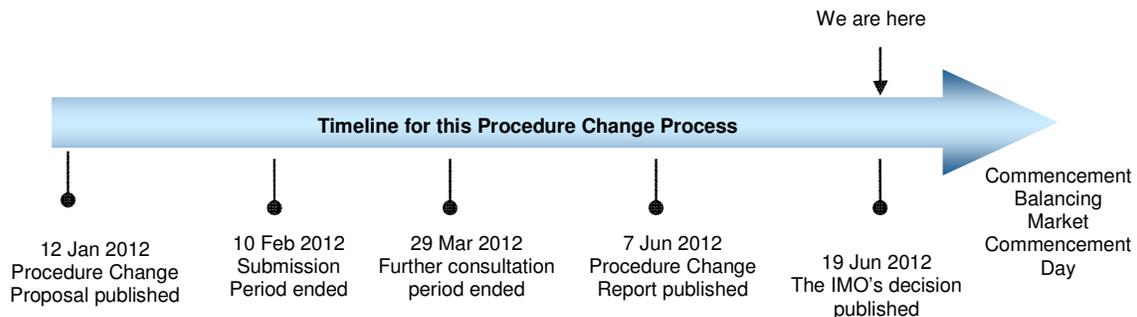
¹ For further details refer to the Final Rule Change Report for the Rule Change Proposal: Competitive Balancing and Load Following Market (RC_2011_10) available on the Market Web Site.

1. INTRODUCTION

On 12 January 2012, the Independent Market Operator (IMO) published a Procedure Change Proposal from System Management regarding the proposed replacement Power System Operation Procedures (PSOPs): Competitive Balancing and Load Following Market 2.

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. PROPOSED AMENDMENTS

2.1 Summary of the Proposal

In its proposal, System Management notes that following feedback from Market Participants and the findings of the Verve Energy Review, a proposal to establish competition in the provision of both Balancing and Load Following Ancillary Services was developed. The resulting amendments to the Market Rules were progressed by the Rule Change Proposal: Competitive Balancing and Load Following Market (RC_2011_10)². System Management considered it was therefore necessary to make related and relevant changes to the PSOPs impacted on by RC_2011_10.

System Management also notes that it has included a number of minor and typographical amendments to the PSOP consistent with its endeavour to continuously seek to improve the integrity and accuracy of the PSOPs.

Full details of the Procedure Change Proposal are available at: <http://www.imowa.com.au/PPCL0022>

² Note that the final Amending Rules resulting from RC_2011_10 were approved by the Minister on 20 March 2012. Refer to the following webpage for further details: http://www.imowa.com.au/RC_2011_10

3. CONSULTATION

3.1 Market Advisory Committee or Working Group

The Market Advisory Committee (MAC) has delegated the role of:

- considering System Management Procedure Change Proposals to the System Management Procedure Change and Development Working Group (clause 2.3.17(a)); and
- considering, assessing, developing and undertaking post-implementation evaluation of change to the Market Rules associated with the issues list agreed at the 11 August 2010 MAC meeting to the Rules Development Implementation Working Group (RDIWG).

Details of the discussion of the proposed replacement PSOPs by these Working Groups is outlined below. At the time of publishing the Procedure Change Proposal the IMO notified the MAC and noted that it would convene a meeting of the MAC to discuss should two or more members wish to (clauses 2.10.8 and 2.10.9). No MAC member contacted the IMO in this regard.

12 December 2011 – System Management Procedure Change and Development Working Group Meeting

Prior to formal submission the proposed replacement PSOPs were discussed by the Working Group at its 12 December 2011 meeting. The following points of significance were raised with respect to the PSOP: Power System Security:

- Mr John Rhodes questioned why the presentation detailed two standard deviations should be applied for the purposes of assuming the system load level and Intermittent Generation mean forecast level. Mr Rhodes noted that this value is inconsistent with that provided in step 2.1.12 of the PSOP for System Management's assessment outside the Balancing Horizon and the Market Rules. Mr Hay advised that the slide needed to be updated; and
- It was discussed amongst the Working Group that they appeared to have different versions of the PSOP and Ms Suzanne Frame requested if System Management would be able to include version control and page numbering in the footers of the PSOPs so the Working Group can identify what version they are reviewing.

There were no agreed outcomes of further updates to the PSOP: Ancillary Services required following the discussions of the Working Group.

At the conclusion of the meeting the Chair advised members that there would be further out of session consultation on the PSOPs to allow members more time to evaluate the amendments. No submissions were received during this period.

22 March 2012 – RDIWG Meeting

Subsequent to System Management's request to the IMO to undertake a further consultation period with all of industry, the updated replacement PSOPs were also presented to the RDIWG for discussion at its 22 March 2012 meeting. During the meeting the following point was raised:

- Mr Cameron Parrotte advised that section 2.1 of the Ancillary Service PSOP had been amended to offer a minimum 20MW offer tranche size, as they believed that Load Following on AGC would have too large a dead band if they had too many units in Load Following. Mr Allan Dawson expressed concern that this restriction was likely to restrict competition in the market, and suggested further discussion on the issue when Mr Jim Truesdale was in Perth in April 2012. Mr Parrotte advised that this had been discussed with Mr Truesdale, who understood where System Management was coming from. Mr Dawson suggested that Market Participants provide clear feedback to System Management regarding the 20MW minimum and that is still be discussed when Mr Truesdale was next in Perth.

3.2 Submissions received during consultation period

The public submission period was between 13 January 2012 and 10 February 2012. During this time System Management received one submission from Landfill Gas & Power (LGP).

In its submission LGP noted its support for the replacement PSOPs.

3.3 Submissions received during the further consultation period

System Management provided interested parties with a further consultation period which was between 19 March 2012 and 29 March 2012. During this time System Management received submissions from Alinta Energy and the IMO.

Alinta Energy noted concern that, with respect to the 20MW limitation on LFAS (clause 2.1.1(k) of the Ancillary Services PSOP), the doubling of this quantity would appear to risk making the LFAS Market non-contestable for many Market Generators. Alinta also noted that, with respect to the Minimum Restart Time (Clause 4.1(d) of the Power System Security PSOP), the reason for specifying the minimum restart time as the length of time for which a Facility has been offered at the maximum cap price is unclear. Alinta questioned whether these are not independent.

In its submission the IMO provided support for System Management's decision to undertake a further round of consultation on the replacement PSOPs. The IMO attached a copy of its questions and suggestions on all the relevant PSOPs that were provided for further consultation to its submission. These included the issues that were raised during the RDIWG's discussion on 22 March 2012. An overview of the relevant issues raised in the log is presented below:

- Ancillary Services PSOP – The minimum requirement of 20MW to participate in the LFAS market is too restrictive;
- Ancillary Services PSOP – Does not indicate how System Management will apply its decision under clause 2.34.7C (b). This is required under clause 7B.1.2(c); and
- Ancillary Services PSOP – Does not indicate how System Management will satisfy clause 7B.3.6. There is no requirement on System Management to do this but it will enable Market Participants to have a greater understanding of the services they are expected to provide.

A full copy of each of the submissions received during the further consultation period is available on the Market Web Site.

4. THE IMO'S ASSESSMENT

The IMO is required under clause 2.10.14 of the Market Rules to make a decision whether to approve a proposed PSOP, or amendment to or replacement for a PSOP, prepared by System Management.³ The IMO has undertaken an assessment of the proposed amendments in light of the requirements outlined clause 2.9.3(a) of the Market Rules which 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 also reviewed the commencement date proposed by System Management to ensure that it will allow sufficient time after the date of publication of the Procedure Change Report for Rule Participants to implement the changes required by it (clause 2.10.15(c)).

The IMO's assessment of System Management's proposed replacement PSOP: Power System Security and PSOP: Ancillary Services is outlined in the following sections.

4.1 System Management consideration of issues raised during consultation

The IMO notes that System Management has addressed each of the issues raised by submissions received during the further consultation period and by the RDIWG during its 22 March 2012 meeting. No issues were raised during the formal consultation period.

The IMO notes that in addressing the concerns raised at the RDIWG meeting around how System Management will satisfy clause 7B.3.6, System Management will (under step 2.1.2) be required to make public a document explaining the methodology for ensuring reasonable proportions of Load Following are used.

4.2 Wholesale Market Objectives

The IMO considers that the proposed replacement PSOP: Power System Security and PSOP: Ancillary Services are drafted in a way that does not change the operation or objectives of the Market Rules, as amended by RC_2011_10. As a result, the IMO considers that the proposed replacement PSOP: Power System Security and PSOP: Ancillary Services are, as a whole, consistent with the Wholesale Market Objectives.

4.3 Market Rules, the Electricity Industry Act and Regulations

The IMO considers that the proposed replacement PSOP: Power System Security and PSOP: Ancillary Services are consistent with:

- the Market Rules,
- the Electricity Industry Act; and
- Regulations.

The IMO also considers that the proposed replacement PSOP: Power System Security and PSOP: Ancillary Services are consistent with all other Market Procedures.

4.4 Implementation of the replacement Power System Operation Procedure

In its Procedure Change Report, System Management does not identify any operational considerations that need to be taken into account when determining the implementation date for PPCL0022 and recommends that the replacement PSOPs commence on the Balancing Market Commencement Day. The IMO also notes that the submissions received during the public consultation process did not provide any evidence to suggest that Market Participants would be not able to implement the revised processes in the replacement PSOPs by the Balancing Market Commencement Day.

The implementation of the replacement Market Procedures constitutes part of the overall implementation of the new Balancing and LFAS Markets. The IMO considers that the proposed replacement PSOPs will support the operation of the new markets and will not require the IMO or System Management to implement any procedure or system amendments in addition to those already being incurred as part of the overall implementation of the new markets.

The IMO considers that System Management's proposed commencement date at 8.00am on the Balancing Market Commencement Day should allow sufficient time from the date of publication of System Management's Procedure Change Report to ensure compliance with the replacement PSOPs.

5. THE IMO'S DECISION

The IMO's decision is to approve the replacement PSOP: Power System Security, and PSOP: Ancillary Services as proposed by System Management in its Procedure Change Report.

5.1 Reasons for the decision

The IMO's decision is based on its assessment that the replacement PSOP: Power System Security, and PSOP: Ancillary Services:

- will enable the operation of, and facilitate participation in the new Balancing and Load Following Markets and thereby support the achievement of the Wholesale Market Objectives;
- have the support of the submission received during the public consultation period;
- are consistent with the Market Rules, the Electricity Industry Act and Regulations; and
- require no additional system changes to implement.

Additional detail outlining the analysis behind the IMO's reasons is outlined in section 4 of this report.

6. THE REPLACEMENT POWER SYSTEM OPERATION PROCEDURES

6.1 Commencement

The replacement PSOP: Power System Security and PSOP: Ancillary Services will commence at **8.00am** on the **Balancing Market Commencement Day**.

6.2 The Replacement Power System Operation Procedure

The wording of the approved replacement PSOP: Power System Security and PSOP: Ancillary Services is available on the IMO's website.