



# WHOLESALE ELECTRICITY MARKET

## PROCEDURE CHANGE PROPOSAL NO: PC\_2017\_01

MARKET PROCEDURE: DETERMINATION OF EXPECTED DSM  
DISPATCH QUANTITY AND DSM ACTIVATION PRICE

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## 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 new Market Procedure: Determination of Expected DSM Dispatch Quantity and DSM Activation Price under the Wholesale Electricity Market (**WEM**) Rules.

This proposed new Market Procedure has been developed in accordance with clause 4.5.14B of the WEM Rules, which commenced on 1 June 2016 and which requires AEMO to develop a new Market Procedure to document the process that it follows when calculating the Expected DSM Dispatch Quantity and the DSM Activation Price.

This Procedure Change Proposal includes this document, which outlines the reason for the proposed Market Procedure, and the proposed new Market Procedure itself, which is available at: [http://www.aemo.com.au/Stakeholder-Consultation/Consultations/PC\\_2017\\_01](http://www.aemo.com.au/Stakeholder-Consultation/Consultations/PC_2017_01).

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 (AWST) on 24 April 2017, in accordance with the call for submissions published with this paper.



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# 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 (Clause 2.10.1).

If an Amending Rule requires AEMO to develop new Market Procedures or to amend or replace existing Market Procedures, then AEMO is responsible for the development, amendment, or replacement of Market Procedures so as 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	23 Mar 2017
Submissions due on Procedure Change Proposal	24 Apr 2017
Procedure Change Report published	29 May 2017
Proposed commencement of new Market Procedure	1 Jul 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 4.5.14B of the WEM Rules, which commenced on 1 June 2016, provides that:

*4.5.14B AEMO must, on or before 31 December 2016, document the procedure it follows in calculating:*

- (a) the Expected DSM Dispatch Quantity; and*
- (b) the DSM Activation Price,*

*and Rule Participants, including AEMO, must follow that documented Market Procedure.*

The proposed Market Procedure would be the first version of this procedure. AEMO notes that this Market Procedure did not commence in accordance with the rule requirement outlined in clause 4.5.14B of the WEM Rules. This has been documented for compliance and market audit purposes, though AEMO notes that this delay has had no operational impact on the market. AEMO proposes to commence the new procedure on 1 June 2016, in time for the publication of the SOO Report in mid-June

### 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 (**RCM**).<sup>1</sup> These amendments changed the manner in which the capacity price and capacity volumes are determined for Demand Side Management (**DSM**) providers. These amendments include transitional reforms that will apply in the period prior to the implementation of a Reserve Capacity Auction, which is currently being designed by the Public Utilities Office.<sup>2</sup>

During the transition period before the commencement of the auction, a separate pricing mechanism will be applied to DSM capacity. Chapter 11 (the Glossary) of the WEM Rules defines the DSM Reserve Capacity Price as the price that will be paid per DSM Capacity Credit for a Capacity Year, being the product of:

- (a) The Expected DSM Dispatch Quantity plus 0.5MWh; and
- (b) The DSM Activation Price.

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<sup>1</sup> See Government Gazette No.89 dated 31 May 2016, *Electricity Industry (Commencement of Electricity Industry (Wholesale Electricity Market) Amendment Regulations) Order 2016*.

<sup>2</sup> Further information on the proposed Reserve Capacity Auction is available in the report *Reserve Capacity Auction – Final Design and Implementation*, available at: [http://www.finance.wa.gov.au/cms/uploadedFiles/Public\\_Utility\\_Office/Electricity\\_Market\\_Review/Reserve-Capacity-Auction-Final-Design-and-Implementation.pdf](http://www.finance.wa.gov.au/cms/uploadedFiles/Public_Utility_Office/Electricity_Market_Review/Reserve-Capacity-Auction-Final-Design-and-Implementation.pdf).

## 3. PROPOSED PROCEDURE CHANGE

### 3.1 Detail of the proposed procedure change

The new draft Market Procedure describes how the input variables for the calculation of the DSM Reserve Capacity Price are determined. The two main input variables are the Expected DSM Dispatch Quantity and the DSM Activation Price.

#### Expected DSM Dispatch Quantity

The Expected DSM Dispatch Quantity (**EDDQ**) is a forecast, expressed in terms of MWh per DSM Capacity Credit, of the quantity of Unserved Energy which might be expected to be avoided in a Capacity Year through the dispatch of all Demand Side Programmes for 200 hours.

To inform the EDDQ calculations, AEMO may utilise its information request functions in clause 4.5.3 of the WEM Rules, where it may request information for each year of the Long Term PASA Study Horizon from Rule Participants by no later than 1 April of Year 1 of the relevant Reserve Capacity Cycle.

#### DSM Activation Price

The DSM Activation Price represents an estimate of the value of customer reliability (**VCR**) for a Capacity Year in dollars per MWh and is used to determine the DSM Reserve Capacity Price. The VCR reflects the value derived through reduction of unserved energy by DSPs.

AEMO will undertake an annual assessment to determine the need to conduct a VCR study and will publish the outcome of this assessment in the Request for Expressions of Interest by 5:00 PM on or before 31 January of Year 1 of a Reserve Capacity Cycle in accordance with clause 4.1.4. The assessment must consider the cost and the expected duration of the study. In the absence of a VCR study, AEMO will determine the VCR price to be \$33,460/MWh (clause 4.5.14F).

### 3.2 Proposed drafting

AEMO has published a draft of the proposed Market Procedure: Determination of Expected DSM Dispatch Quantity and DSM Activation Price for consultation, which is available at: [http://www.aemo.com.au/Stakeholder-Consultation/Consultations/PC\\_2017\\_01](http://www.aemo.com.au/Stakeholder-Consultation/Consultations/PC_2017_01). AEMO has not provided a marked-up version of the Market Procedure as it is a new procedure that does not currently exist.

### 3.3 Consultation to date

A draft version of the Market Procedure was presented at the WA Market Reform Program – Reserve Capacity Mechanism Forum 2 (WAMRP-RCM) meeting held on 22 February 2017. Details of this forum are available at: <http://aemo.com.au/Stakeholder-Consultation/Industry-forums-and-working-groups/WA-Forums/WAMRP-Reserve-Capacity-Mechanism-Forum>.

Minor changes to improve clarity around publication of data, timeframes and the definition of customer groups and peak intervals for VCR studies 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 new WEM Market Procedure has been reviewed as a whole by AEMO to ensure compliance of the WEM Market Procedure with the relevant provisions in the:

- Electricity Industry Act;



- *Electricity Industry (Wholesale Electricity Market) Amendment Regulations (No.2) 2016 (WEM Regulations)*; and
- WEM Rules.

### **3.5 Consistency with Wholesale Market Objectives**

The steps outlined in this new Market Procedure describe the process AEMO has to follow to determine the DSM Reserve Capacity Price as the price that will be paid per DSM Capacity Credit for a Capacity Year. 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 new 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 24 April 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](mailto:wa@aemo.com.au).

All correspondence in relation to this Procedure Change Proposal must be entitled "PC\_2017\_01 Determination of Expected DSM Dispatch Quantity and DSM Activation Price - [Name of the submitting company or individual]".