

WHOLESALE ELECTRICITY MARKET

PROCEDURE CHANGE PROPOSAL NO: AEPC_2020_05

MARKET PROCEDURE: RESERVE CAPACITY SECURITY

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EXECUTIVE SUMMARY

Change requested by:	AEMO
Date submitted:	18 May 2020
Type of Procedure Change Proposal:	Amendment
Market Procedures affected:	Reserve Capacity Security

The publication of this Procedure Change Proposal and the accompanying call for submissions, commences the Procedure Change Process conducted by AEMO to consider proposed amendments to the Market Procedure: Reserve Capacity Security under the Wholesale Electricity Market Rules (**WEM Rules**).

The Minister for Energy amended the WEM Rules on 11 February 2020 to implement changes to the Reserve Capacity Price from the 2019 Reserve Capacity Cycle (**RCM Pricing Amendments**). Further information about the changes can be found on Energy Policy WA's website¹.

The RCM Pricing Amendments introduced a requirement for Demand Side Programmes (**DSP**) to provide DSM Reserve Capacity Security each year. In accordance with clause 1.29.2 of the WEM Rules, DSM Reserve Capacity Security provisions must be documented in a Market Procedure by 1 July 2020.

This Procedure Change Proposal includes:

- Amendments required to document DSM Reserve Capacity Security.
- Changes to reflect the Reserve Capacity Security Guideline², which was introduced to clarify the current version of the Market Procedure following requests from Market Participants.

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* (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 (Perth time) on 16 June 2020, in accordance with the call for submissions published with this paper.

¹ At <https://www.wa.gov.au/government/document-collections/improving-reserve-capacity-pricing-signals>.

² The Reserve Capacity Security Guideline was introduced in 2017 to clarify areas of confusion in the existing Market Procedure. The Reserve Capacity Security Guideline will be replaced by the amended Market Procedure.



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1. PROCEDURE CHANGE PROCESS

Clause 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.

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.

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	18 May 2020
Submissions due on Procedure Change Proposal	16 June 2020
Procedure Change Report published	30 June 2020
Proposed commencement of amended Market Procedure	1 July 2020



Prior to the submission's 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

Clauses 4.13.8 and 4.13A.23 of the WEM Rules provide:

4.13.8 AEMO must develop a Market Procedure dealing with:

- a) *determining Reserve Capacity Security;*
- b) *assessing persons against the Acceptable Credit Criteria;*
- c) *Reserve Capacity Security arrangements, including:*
 - i. *the form of acceptable guarantees and bank undertakings;*
 - ii. *where and how it will hold Security Deposits and how the costs and fees of holding Security Deposits will be met;*
 - iiA. *the circumstances that may require Reserve Capacity Security to be replaced for the purposes of 4.13.4; and*
 - iii. *the application of monies drawn from Reserve Capacity Security in respect of amounts payable by the relevant Market Participant to AEMO under clause 4.13.11A; and*
- d) *other matters relating to section 4.13.*

4.13A.23 AEMO must document in a Market Procedure the processes relating to:

- a) *determining DSM Reserve Capacity Security;*
- b) *assessing persons against the Acceptable Credit Criteria;*
- c) *DSM Reserve Capacity Security arrangements, including:*
 - i. *the form of acceptable guarantees and bank undertakings;*
 - ii. *where and how it will hold Security Deposits and how the costs and fees of holding Security Deposits will be met;*
 - iii. *the circumstances that may require DSM Reserve Capacity Security to be replaced for the purposes of 4.13A.12; and*
 - iv. *the application of monies drawn from DSM Reserve Capacity Security in respect of amounts payable by the relevant Market Participant to AEMO under clause 4.13A.16; and*
- d) *requests under clause 4.13A.18, including:*
 - i. *how AEMO will make a determination on whether to accept or decline a request under clause 4.13A.19;*
 - ii. *the matters AEMO may take into account;*
 - iii. *the evidence a Market Participant will be required to provide in support of a request; and*
 - iv. *if AEMO declines a request, that AEMO will be required to provide reasons to the relevant Market Participant; and*
- e) *any other matters relating to this section 4.13A.*



The current version of the Market Procedure commenced on 30 November 2015.

2.2. Context for this consultation

The Minister for Energy amended the WEM Rules on 11 February 2020 to implement changes to the Reserve Capacity Price from the 2019 Reserve Capacity Cycle (RCM Pricing Amendments). Further information about the changes can be found on Energy Policy WA's website³.

The RCM Pricing Amendments introduced a requirement for Demand Side Programmes (DSP) to provide DSM Reserve Capacity Security each year. In accordance with clause 1.29.2 of the WEM Rules, DSM Reserve Capacity Security provisions must be documented in a Market Procedure by 1 July 2020.

2.3. Consultation to date

A draft version of the proposed amended Market Procedure was presented at the AEMO Procedure Change Working Group held on 7 May 2020. AEMO edited the definition of Temperature Dependence Curve to specify sent out output in response to stakeholder feedback.

AEMO made additional minor formatting and typographical amendments to the Market Procedure since the meeting.

The minutes and papers from the AEMO Procedure Change Working Group meeting can be found at: <https://aemo.com.au/consultations/industry-forums-and-working-groups/list-of-industry-forums-and-working-groups/wem-aemo-procedure-change-working-group>.

3. PROPOSED PROCEDURE CHANGE

3.1. Detail of the proposed procedure change

The proposed changes to the Market Procedure are summarised below⁴:

- Removed definitions that were no longer required (e.g. Compliance Date), added new ones (e.g. Security), and clarified the meaning of the defined term Due Date.
- Restructured the Market Procedure to improve the flow and more closely match the sequence of events.
- Simplified the process for exchanging or replacing Reserve Capacity Security and DSM Reserve Capacity Security.
- Documented the requirements for DSM Reserve Capacity Security (section 4.13A of the WEM Rules), including:
 - When and how DSPs must provide DSM Reserve Capacity Security.
 - The process for waiving and returning DSM Reserve Capacity Security.
- Minor typographical and formatting changes to align the Market Procedure with AEMO's latest template.

3.2. Proposed drafting

AEMO has published a draft of the Market Procedure: Reserve Capacity Security incorporating the changes AEMO proposes for consultation. Clean and change-marked versions are available at: https://aemo.com.au/en/consultations/current-and-closed-consultations/aepc_2020_05.

³ At <https://www.wa.gov.au/government/document-collections/improving-reserve-capacity-pricing-signals>.

⁴ Most of these changes (excluding the changes for DSM Reserve Capacity Security) reflect the Guideline that was developed in 2017. The Guideline will be replaced by the amended Market Procedure.



3.3. Wholesale Market Objective assessment

The steps outlined in the proposed amended Market Procedure describe how Rule Participants will fulfil their obligations under the WEM Rules.

AEMO considers that the Market Procedure, if amended as proposed, would be consistent with the Wholesale Market Objectives.

4. SUMMARY OF MATTERS FOR CONSULTATION

AEMO invites stakeholders to suggest alternative options for drafting, where they consider these would improve the procedure or better meet the Wholesale Market Objectives.

Stakeholders are invited to submit written responses on the proposed amended Market Procedure by 5:00 pm (Australian Western Standard Time) on 16 June 2020, in accordance with the call for submissions published with this paper.

Stakeholders with questions in relation to the proposed amended Market Procedure or this Procedure Change Proposal can contact AEMO via email at wa.capacity@aemo.com.au.

All correspondence in relation to this Procedure Change Proposal must be entitled "AEPC_2020_05: Market Procedure: Reserve Capacity Security – [Name of the submitting company or individual]".