



WHOLESALE ELECTRICITY MARKET

PROCEDURE CHANGE PROPOSAL: AEPC_2017_06

MARKET PROCEDURE: UNDERTAKING THE LONG TERM
PASA AND CONDUCTING A REVIEW OF THE PLANNING
CRITERION

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EXECUTIVE SUMMARY

The publication of this Procedure Change Proposal and accompanying call for submissions commences the Procedure Change Process conducted by AEMO to consider a proposed revised Market Procedure: Undertaking the Long Term PASA and conducting a review of the Planning Criterion under the Wholesale Electricity Market Rules (WEM Rules).

The proposed revised Market Procedure is required by clause 4.5.14 of the WEM Rules which requires AEMO to document the process by which AEMO conducts the Long Term PASA, and which the Economic Regulation Authority (ERA) must follow in conducting the review required under clause 4.5.15 of the WEM Rules.

Amendments are proposed to the Market Procedure to update it to the current format, increase clarity, and reflect amendments to the WEM Rules that were gazetted by the Minister for Energy on 31 May 2016, the last of which will commence on 1 October 2017. These Rules enable reforms that address the problem of excess capacity in the South West Interconnected System (SWIS) by making the Reserve Capacity Mechanism more responsive to market conditions.

This Procedure Change Proposal includes this document, which outlines the specific reasons for the proposed amendments to the Market Procedure, and the proposed Market Procedure itself, which is available at:

http://www.aemo.com.au/Stakeholder-Consultation/Consultations/AEPC_2017_06.

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 Australian Western Standard Time (AWST) on 3 August 2017, in accordance with the call for submissions published with this Procedure Change Proposal.



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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 (Clauses 2.10.1 and 2.10.2).

If an Amending Rule requires AEMO to develop new Market Procedures or amend or replace existing Market Procedures, then AEMO is responsible for the development, amendment or replacement of Market Procedures 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	6 July 2017
Submissions due on Procedure Change Proposal	3 August 2017
Procedure Change Report published	14 September 2017
Proposed commencement of revised Market Procedure	1 October 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 4.5.14 of the WEM Rules provides that:

4.5.14. AEMO must document the procedure it follows in conducting the Long Term PASA, and which the Economic Regulation Authority must follow in conducting reviews under clause 4.5.15, in a Market Procedure. The Economic Regulation Authority and Rule Participants, including AEMO, must follow that documented Market Procedure in the conduct of the Long Term PASA study and the review under clause 4.5.15, as applicable.

The proposed Market Procedure would be the fourth version of this procedure. AEMO proposes to commence the revised procedure on 1 October 2017, in time for the final commencement of amendments to the WEM Rules gazetted by the Minister for Energy on 31 May 2016.

AEMO notes that the gazetted amendments to the WEM Rules leave AEMO with responsibility for a Market Procedure that governs the ERA's review of the Planning Criterion. AEMO considers there is merit in considering the need for a Market Procedure to govern the Planning Criterion review and, if so, whether responsibility for such a Market Procedure should transfer to the ERA.

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.¹ The Public Utilities Office's *Final Report: Reforms to the Reserve Capacity Mechanism*² indicated these reforms addressed the problem of excess capacity in the South West Interconnected System (SWIS) by making the Reserve Capacity Mechanism more responsive to market conditions; that is, more responsive to the level of capacity in the market relative to the Reserve Capacity Requirement. There were four principal elements of the reforms.

1. Adoption of a three-year ahead auction as the basis for procurement and pricing of capacity, following a period of transition.
2. Changes to the capacity price formula for a transition period prior to the auction, that involves maintaining the existing administered price mechanism but with a steeper pricing curve and a different pricing arrangement for demand side management capacity.
3. Implementation of measures to harmonise demand side management availability requirements with requirements for conventional generators.
4. Stronger commercial incentives for all forms of capacity to be made available for dispatch.

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

² April 2016, Public Utilities Office, "Final Report: Reforms to the Reserve Capacity Mechanism". Available at: http://www.finance.wa.gov.au/cms/uploadedFiles/Public_Utility_Office/Electricity_Market_Review/Reforms-to-the-Reserve-Capacity-Mechanism-Final-Report.pdf.

3. PROPOSED PROCEDURE CHANGE

3.1 Detail of the proposed procedure change

AEMO proposes to update the Procedure to:

- Increase clarity and update to the current format; and
- Reflect the amendments to the WEM Rules that were gazetted by the Minister for Energy on 31 May 2016, the last of which will commence on 1 October 2017. These amendments include changes to the Availability Curve, and the publication of the Demand Side Management (DSM) Reserve Capacity Price (RCP) and related parameters in the Statement of Opportunities Report.

AEMO previously indicated that this Market Procedure may be varied to incorporate details of the methodology to determine Expected Unserved Energy, a parameter of the DSM RCP. AEMO has decided that this is not appropriate as the methodology may vary each year. Instead, AEMO will publish these details in the Statement of Opportunities Report or supplementary documents.

3.2 Proposed drafting

AEMO has published a draft of the proposed Market Procedure: Undertaking the Long Term PASA and conducting a review of the Planning Criterion for consultation, which is available at: http://www.aemo.com.au/Stakeholder-Consultation/Consultations/AEPC_2017_06. AEMO has also provided a marked-up version of the revised Market Procedure.

3.3 Consultation to date

AEMO understands that the Market Advisory Committee (MAC) will formalise the establishment of a new Working Group in the coming months to advise AEMO on Market Procedures. Until this Working Group is formally established, AEMO will convene ad hoc workshops to provide advice on Market Procedures, particularly those for which amendments are required for gazetted rule amendments commencing on 1 October 2017. A draft version of the Market Procedure was presented at the AEMO WEM Procedure Change workshop held on 26 June 2017. Details of this forum are available at: <http://aemo.com.au/Stakeholder-Consultation/Industry-forums-and-working-groups/WA-Forums>.

Minor changes to improve clarity 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 revised Market Procedure has been reviewed as a whole by AEMO to ensure compliance with the relevant provisions in the:

- Electricity Industry Act;
- WEM Regulations; and
- WEM Rules.

3.5 Consistency with Wholesale Market Objectives

The steps outlined in this revised Market Procedure describe the process by which AEMO conducts the Long Term PASA and which the ERA must follow in conducting the review required under clause 4.5.15 of the WEM Rules.



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 revised 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 3 August 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.

All correspondence in relation to this Procedure Change Proposal must be entitled “AEPC_2017_06 Undertaking the Long Term PASA and conducting a review of the planning criterion - [Name of the submitting company or individual]”.