



INDEPENDENT
MARKET
OPERATOR



Procedure Change Report: PC_2013_05

Changes to Market Procedure for Reserve Capacity
Security

9 January 2015

Executive summary

Proposed amendments

The IMO proposed amendments to the Market Procedure: Reserve Capacity Security (Market Procedure) to ensure consistency with the Amending Rules in the Rule Change Proposal: Prudential Requirements (RC_2012_23) that commenced on 1 May 2014.

The key areas of the Market Procedure that the IMO proposed to amend are related to:

- Reserve Capacity Security arrangements outlined in sections 5, 6 and 7 of the Market Procedure where additional detail has been provided on the processes to be followed by Market Participants and the IMO to ensure that adequate Reserve Capacity Security is provided and maintained; and
- Acceptable Credit Criteria outlined in section 5.5 of the Market Procedure where the IMO has retained a high-level description of the obligation and required Market Participants and the IMO to follow relevant obligations outlined in the Market Procedure: Prudential Requirements.

The IMO also reflected the latest IMO format and style in the Market Procedure to improve the overall readability and usability of the document.

Consultation

The IMO presented the proposed amended Market Procedure to the IMO Procedure Change and Development Working Group at its 1 May 2014 meeting. Some suggestions were received to provide further clarity on the obligations related to Acceptable Credit Criteria and the definition of Commercial Operation. The IMO included these suggestions and process flowcharts (provided separately in hardcopy at the meeting) in the revised proposed amended Market Procedure and submitted it into the formal Procedure Change Process on 14 July 2014.

The consultation period was held between 15 July and 11 August 2014. A submission was received from Community Electricity which supported the proposed amendments on the grounds that it clarified and updated existing processes to reflect recent amendments to the Wholesale Electricity Market Rules (Market Rules) thereby improving the overall integrity of the market.

Following the close of the consultation period, the IMO identified that section 8.3 of the proposed amended Market Procedure would benefit from further clarification on the determination of the Required Level as outlined under clause 4.11.3B of the Market Rules and the adjusted Required Level that must be achieved under clauses 4.13.10(a) and 4.13.13(a) of the Market Rules for the purpose of return of Reserve Capacity Security. Therefore, on 30 October 2014 the IMO published a call for further consultation for 20 Business Days on these proposed further amendments.

The further consultation period was held between 31 October and 27 November 2014. No formal submissions were received during this period. An informal submission was received from Community Electricity supporting the proposed further amendments on the

grounds that they corrected a manifest error and improved the clarity of the Market Procedure.

The IMO's assessment of the proposal

The IMO considers that, overall, the proposed amended Market Procedure is consistent with the Wholesale Market Objectives and the Market Rules because it supports the operation of the Market Rules as amended by RC_2012_23. Additionally, it clarifies and documents current obligations and processes thereby improving transparency in the market.

The IMO does not consider that there are any issues related to practicality of implementation because the proposed amendments support the current operation of the Market Rules and do not change the intended meaning of the Market Rules. Additionally, no Market Participant identified any issues in relation to the practicality of implementation of the proposed amended Market Procedure during either consultation period.

The IMO's decision

The IMO's decision is to accept the Market Procedure as amended following the further consultation period. The IMO has made additional minor changes to the Market Procedure as proposed in the Procedure Change Proposal to improve the overall integrity of the Market Procedure.

Next steps

The amended Market Procedure is proposed to commence at **8:00 AM** on **19 January 2015**.

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1. Procedure change process and timetable

On 14 July 2014, the IMO submitted a Procedure Change Proposal regarding changes to the Market Procedure: Reserve Capacity Security (PC_2013_05).

This proposal is being processed using the Procedure Change Process, described under clause 2.10 of the Wholesale Electricity Market (WEM) Rules (Market Rules).

The key dates in processing this Procedure Change Proposal are:



2. Proposed amended Market Procedure

2.1 The Procedure Change Proposal

The IMO developed the Rule Change Proposal: Prudential Requirements (RC_2012_23¹) where certain amendments were proposed to clauses 4.13.1, 4.13.2C, 4.13.3, 4.13.4 and 4.13.5 of the Market Rules that outline the obligations for Market Participants and the IMO with respect to the provision, maintenance and replacement of Reserve Capacity Security. The IMO developed this Procedure Change Proposal to propose amendments to the Market Procedure: Reserve Capacity Security (Market Procedure) to ensure consistency with the Amending Rules in RC_2012_23 that commenced on 1 May 2014.

The Market Procedure provides further detail on issues related to the:

- (a) determination and notification of the requirement for Reserve Capacity Security;
- (b) arrangements for Market Participant's to provide Reserve Capacity Security;
- (c) assessing Reserve Capacity Security arrangements;
- (d) maintenance and replacement of Reserve Capacity Security;
- (e) conditions that must be fulfilled for the return of Reserve Capacity Security; and
- (f) application of monies drawn upon from Reserve Capacity Security.

¹ Available on the Market Web Site: http://www.imowa.com.au/RC_2012_23.

The key areas of the Market Procedure that the IMO proposed to amend are discussed below.

Reserve Capacity Security arrangements

In RC_2012_23, the IMO proposed amendments to clauses 4.13.1, 4.13.2C, 4.13.3, 4.13.4 and 4.13.5 of the Market Rules to:

- provide greater clarity to Market Participants with respect to their obligations to provide and maintain the required amount of Reserve Capacity Security; and
- retain the principles in the Market Rules and move the prescriptive detail in relation to timelines for providing Reserve Capacity Security and circumstances which may necessitate replacement Reserve Capacity Security, into the Market Procedure.

As a result, the IMO proposed to amend sections 5, 6 and 7 of the Market Procedure to provide further detail in relation to the processes to be followed by Market Participants and the IMO to ensure that adequate Reserve Capacity Security is provided and maintained.

It should be noted that the procedure steps related to Reserve Capacity Security arrangements are similar to those related to Credit Support arrangements contained in the Market Procedure: Prudential Requirements². To the extent the steps are similar between this Market Procedure and the Market Procedure: Prudential Requirements, the IMO has used consistent language throughout both Market Procedures.

Acceptable Credit Criteria

The IMO amended certain obligations related to Acceptable Credit Criteria in step 4.1 of the Market Procedure: Prudential Requirements.

As obligations related to Acceptable Credit Criteria are the same for Reserve Capacity Security arrangements, the IMO proposed to amend section 5.5 of this proposed amended Market Procedure to require Market Participants to follow the obligations outlined in step 4.1 of the Market Procedure: Prudential Requirements.

Further, the IMO proposed to reduce the detail provided in relation to its obligations to publish and maintain the list of entities meeting the Acceptable Credit Criteria (as outlined in clauses 2.38.7, 2.38.8 and 2.38.9 of the Market Rules) in this proposed amended Market Procedure. The IMO noted that these obligations are appropriately addressed in step 4.2 of the Market Procedure: Prudential Requirements. The IMO considered that reiterating those obligations in this Market Procedure is unnecessary, and as the process is reviewed and amended, inconsistencies may develop between the two Market Procedures. The IMO therefore retained a high-level description of the obligation in this Market Procedure, and linked steps 5.5.4 and 5.5.5 to step 4.2 of the Market Procedure: Prudential Requirements.

Other amendments

The IMO also took the opportunity to update this Market Procedure to:

- (a) improve its readability and usability;
- (b) include Market Rule references where relevant; and

² The revised amended Market Procedure: Prudential Requirements resulting from the Procedure Change Proposal (PC_2013_04) commenced on 1 May 2014, together with the Amending Rules in the Rule Change Proposal: Prudential Requirements (RC_2012_23).

(c) reflect the latest IMO format and style.

For full details of the Procedure Change Proposal please refer to the Market Web Site: http://www.imowa.com.au/PC_2013_05.

During consultation on the Procedure Change Proposal, the IMO also proposed changes to section 8.3 of the Market Procedure. On 30 October 2014, the IMO requested further submissions on these additional changes. The Call for Submissions is available on the Market Web Site: http://www.imowa.com.au/PC_2013_05 and further information is provided in section 3.4 below.

3. Consultation

3.1 Market Advisory Committee or Working Group

Under clause 2.3.17(a) of the Market Rules, the Market Advisory Committee (MAC) has delegated the consideration of IMO Procedure Change Proposals to the IMO Procedure Change and Development Working Group (IMOPWG).

The IMO presented the proposed amended Market Procedure to the IMOPWG at the 1 May 2014 meeting. The following comments were made:

- Mr John Rhodes noted that the head of power clauses that provide for the IMO's obligations to maintain and publish the list of entities meeting the Acceptable Credit Criteria were similar in both the Prudential Requirements section and the Reserve Capacity Security section of the Market Rules. He therefore considered it appropriate to include these obligations in both Market Procedures to the extent possible. The IMO agreed to review the head of power clauses and amending the proposed amended Market Procedure accordingly.
- Mr Rhodes also noted that clarity would be improved by adding a cross-reference to the determination of Commercial Operation in steps 8.1.1(b) and 8.2.1(b) of the proposed amended Market Procedure.
- Mr John Nguyen queried certain operational matters in relation to the requirement for Reserve Capacity Security.

At this meeting, the IMO also circulated the process flowcharts accompanying the relevant sections of the proposed amended Market Procedure. These flowcharts were subsequently included in the proposed amended Market Procedure before submitting it into the formal process.

In accordance with clauses 2.10.8 and 2.10.9 of the Market Rules, the IMO notified the MAC once the Procedure Change Proposal had been published and noted that it would convene a meeting of the MAC should two or more members request it. No MAC member contacted the IMO in this regard.

The minutes of the IMOPWG meeting held on 1 May 2014 are available on the Market Web Site: <http://www.imowa.com.au/IMO-Procedures-Working-Group>.

3.2 Public workshops

No public workshop was held in regard to this Procedure Change Proposal.

3.3 Submissions received during consultation period

The consultation period for the proposed amended Market Procedure was held between 15 July and 11 August 2014. The IMO received a submission from Community Electricity.

Community Electricity supported the proposed amended Market Procedure on the grounds that it clarified and updated existing processes to reflect recent rule changes thereby improving the overall integrity of the WEM.

A copy of the submission in full received during the consultation period is available on the Market Web Site: http://www.imowa.com.au/PC_2013_05.

3.4 Submissions received during the further consultation period

Following the close of the public consultation period, the IMO identified that section 8.3 of the proposed amended Market Procedure would benefit from further clarification on the determination of the Required Level as outlined under clause 4.11.3B of the Market Rules and the adjusted Required Level that must be achieved under clauses 4.13.10(a) and 4.13.13(a) of the Market Rules for the purpose of return of Reserve Capacity Security. Therefore, the IMO published a call for further consultation on these proposed further amendments on 30 October 2014.

The further consultation period was held between 31 October and 27 November 2014. No formal submissions were received during this period. An informal submission was received from Community Electricity supporting the proposed further amendments on the grounds that they corrected a manifest error and improved the clarity of the Market Procedure.

4. The IMO's assessment

In determining whether to accept the Procedure Change Proposal, the IMO has undertaken an assessment in light of clause 2.9.3(a) of the Market Rules which requires Market Procedures to be:

- developed, amended or replaced in accordance with the process in the Market Rules;
- consistent with the Wholesale Market Objectives; and
- consistent with the Electricity Industry Act, Electricity Industry (Wholesale Electricity Market) Regulations (WEM Regulations) and Market Rules.

4.1 Further changes to the proposed amended Market Procedure

Following the close of the two consultation periods, the IMO has made the following minor changes to the proposed amended Market Procedure:

- (a) included the proposed further amendments to Required Level formulae contained in the call for further consultation;

- (b) corrected other minor typographical errors and included additional Market Rule references in the Market Procedure; and
- (c) reflected the latest IMO format and style.

4.2 Wholesale Market Objective assessment

The IMO considers that the steps described in the proposed amended Market Procedure will facilitate the Reserve Capacity Security obligations as described in section 4.13 of the Market Rules, to be met by Market Participants and the IMO. Specifically, the IMO considers that the proposed amendments to the Market Procedure:

- (a) support the operation of the Amending Rules in RC_2012_23, which better achieve:
 - i. Wholesale Market Objective (a) – *to promote the economically efficient, safe and reliable production and supply of electricity and electricity related services in the South West interconnected system* – by improving the management of timelines and processes around Credit Support and Reserve Capacity Security arrangements, thereby promoting overall financial security in the market; and
 - ii. Wholesale Market Objective (b) – *to encourage competition among generators and retailers in the South West interconnected system, including by facilitating efficient entry of new competitors* – by increasing transparency of Market Participants' and the IMO's obligations, thereby reducing barriers to entry for new entrants in the market;
- (b) document the current process and obligations, thereby improving transparency of the Reserve Capacity Security process; and
- (c) enhance the overall readability and usability of the Market Procedure.

For these reasons, the IMO considers that the proposed amended Market Procedure, as a whole, is consistent with the Wholesale Market Objectives.

4.3 The Electricity Industry Act, WEM Regulations and Market Rules

The IMO considers that the proposed amended Market Procedure is consistent, as a whole, with the Electricity Industry Act, WEM Regulations and Market Rules. The Market Procedure is drafted to support the operation of Reserve Capacity Security obligations by clearly documenting the processes to be followed by both Market Participants and the IMO to implement the principles outlined in section 4.13 of the Market Rules.

The IMO also considers that the Market Procedure is consistent with all other Market Procedures and in particular, has been drafted to maintain consistency with the Market Procedure: Prudential Requirements.

4.4 Implementation of the amended Market Procedure

The IMO does not consider that there are any practicality issues with respect to the implementation of the Market Procedure because the proposed amendments support the current operation and do not change the intended meaning of the Market Rules. Additionally,

no Market Participant has identified any issues in relation to the practicality of implementation of the proposed amended Market Procedure during the consultation period.

Therefore, the IMO considers that the proposed amended Market Procedure can be commenced at **8:00 AM** on **19 January 2015**.

5. The IMO's decision

The IMO's decision is to approve the proposed amended Market Procedure: Reserve Capacity Security as amended following the further consultation period.

The IMO has made its decision on the following basis. The amended Market Procedure: Reserve Capacity Security:

- will support the operation of the Market Rules as amended by RC_2012_23;
- is consistent with the Wholesale Market Objectives;
- is consistent with the Electricity Industry Act, WEM Regulations and Market Rules; and
- has the support of the IMOPWG and the submission received during the consultation period.

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

6. The amended Market Procedure

6.1 Commencement

The amended Market Procedure: Reserve Capacity Security will commence at **8:00 AM** on **19 January 2015**.

6.2 The amended Market Procedure

The amended Market Procedure: Reserve Capacity Security is attached to this report and is also available on the Market Web Site: http://www.imowa.com.au/PC_2013_05.