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## Wholesale Electricity Market – Procedure Change Proposal

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Procedure Change No: PC\_2010\_04

### Change requested by:

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<b>Procedure change title:</b>	Changes to Market Procedure for determination of the Maximum Reserve Capacity Price
<b>Market Procedure(s) affected:</b>	Determination of the Maximum Reserve Capacity Price

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### Introduction

The Independent Market Operator (IMO) or System Management, as applicable, may initiate the Procedure Change Process by developing a Procedure Change Proposal. Rule Participants may notify the IMO or System Management, as applicable, where they consider an amendment or replacement of a Market Procedure would be appropriate.

If an Amending Rule requires the IMO or System Management to develop new Market Procedures or to amend or replace existing Market Procedures, then the IMO or System Management, as applicable, is responsible for the development, amendment, or replacement of Market Procedures so as to comply with the Amending Rule.

Market Procedures:

- (a) must:
  - i. be developed, amended or replaced in accordance with the process in the Market Rules;
  - ii. be consistent with the Wholesale Market Objectives; and
  - iii. be consistent with the Market Rules, the Electricity Industry Act and Regulations; and
- (b) may be amended or replaced in accordance with clause 2.10 and must be amended or replaced in accordance with clause 2.10 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.

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## Details of Procedure Change Requested

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### 1. Provide a reason for the proposed new, amended or replacement Market Procedure:

#### Background

The IMO is required to conduct an annual review of the Maximum Reserve Capacity Price (MRCP). Part of this review includes determining the Weighted Average Cost of Capital (WACC) to be applied to various costing components of the MRCP.

The methodology adopted by the IMO is outlined in section 1.13 of the Market Procedure of the Determination of the MRCP (Market Procedure) and involves a number of components that require review. These components are classed as those which required review annually (Minor components) and those structural components which required less frequent review (Major components).

There have recently been a number of amendments to section 1.13 of the Market Procedure and in particular the values of the Major components. These include:

- PC\_2008\_06: values of the Major components specified in section 1.13 as originally determined by the Allen Consulting Group's Report: Review of the WACC for the Purposes of Determining the MRCP. A copy of the Allen Consulting Group's report is available on the following webpage: [http://www.imowa.com.au/PC\\_2008\\_06](http://www.imowa.com.au/PC_2008_06)
- PC\_2009\_12: values for the Major components removed from section 1.13 to allow for the implementation of changes to the calculation of the MRCP for the 2010 Reserve Capacity Cycle as recommended by the Allen Consulting Group. Further details are available on the following webpage: [http://www.imowa.com.au/PC\\_2009\\_12](http://www.imowa.com.au/PC_2009_12)

## **Issue**

The current Market Procedure is deficient in that there is no link between the Market Procedure and the Allen Consulting Group reports that provide recommended values for the Major parameters.

## **Proposal**

The IMO proposes to amend the Market Procedure to reinstate the values of the Major Components as specified by the original Allen Consulting Group Report. To improve the integrity of the Market Procedure, the IMO also proposes a number of minor and typographical amendments.

The IMO notes that the Market Procedure has not been updated to reflect the new IMO format resulting from the IMO current Market Procedure Project, given the pending work of the MRCP Working Group. In particular, clause 4.16.9 requires the IMO to undertake a review of the MRCP Market Procedure at least once in every five year period (Major Review). To assist the IMO in undertaking the Major Review, the MRCP Working Group has been constituted under the auspices of the Market Advisory Committee. However, the Major Review will not conclude in time for the 2011 MRCP determination and thus the Market Procedure should be amended to appropriately guide the 2011 determination. It is anticipated that further changes to the Market Procedure resulting from the outcomes of the Working Groups review will be formally submitted into the Procedure Change Process later in 2010.

The proposed amended Market Procedure was discussed by the IMO Market Procedures Working Group at the 28 July 2010 meeting. Minutes from the meeting are available on the following webpage: <http://www.imowa.com.au/IMO-Procedures-Working-Group>

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## **2. Provide the wording of the Procedure**

The proposed amended Market Procedure for determination of MRCP is provided as an attachment to this proposal.

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## **3. Describe how the proposed changes to the Market Procedure would be consistent with the Market Rules, the Electricity Industry Act and Regulations**

The proposed amended Market Procedure for determination of MRCP has been reviewed as a whole by the IMO to ensure compliance of the Market Procedure with the relevant provisions in the:

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

**4. Describe how the proposed changes to the Market Procedure would be consistent with the Wholesale Market Objectives**

The reinstatement of the values of the Major Components into the Market Procedure will remove a current deficiency in the Market Procedure and ensure transparency of the values to apply in the determination of the MRCP for the 2011 year. The IMO notes that Major Review of the methodology currently underway may result in future changes to the values of the components used in undertaking the determination of the MRCP.

The IMO considers that the steps are drafted in a way that does not change the operation or objectives of the Market Rules.

As a result the IMO considers that the amended Market Procedure for determination of MRCP, as a whole, is consistent with the Wholesale Market Objectives.