



Market Operator

Procedure Change Report

**Title: Changes to Market
Procedure for Certification
of Reserve Capacity**

Ref: PC_2010_06

Date: 6 December 2010

CONTENTS

1. INTRODUCTION.....	3
2. THE PROCEDURE CHANGE PROPOSAL	3
2.1 Details of the Proposal	3
3. PUBLIC CONSULTATION PERIOD.....	4
3.1 Submissions received	4
3.1.1 Out of session submission from Landfill Gas & Power	4
3.2 The IMO's response to submissions	5
4. THE IMO'S ASSESSMENT	5
4.1 Wholesale Market Objectives	6
4.2 Wholesale Market Rules, the Electricity Industry Act and Regulations	6
4.3 Views expressed in submissions.....	7
4.4 Implementation of the Market Procedure	7
4.5 Views of the Market Advisory Committee or a Working Group delegated to consider the Procedure Change Proposal	7
5. THE IMO'S DECISION.....	9
6. THE AMENDED MARKET PROCEDURE.....	9
6.1 Commencement	9
6.2 The Amended Market Procedure	9

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Independent Market Operator

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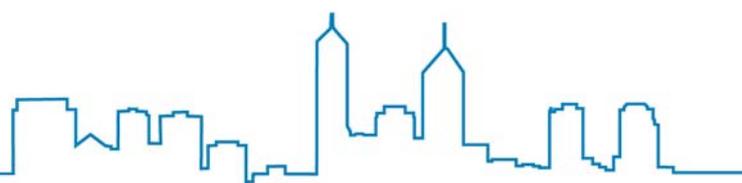
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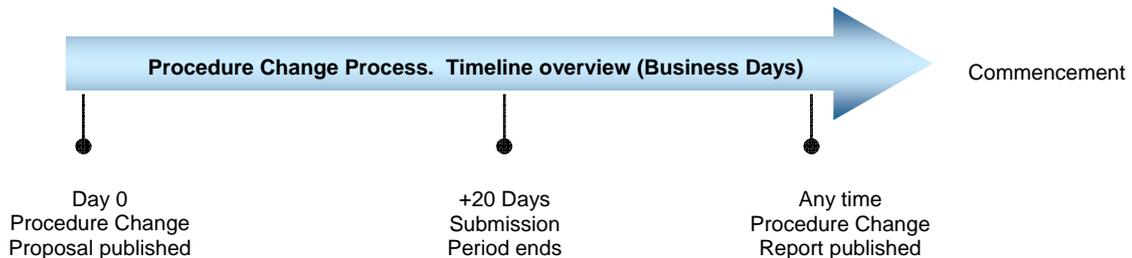
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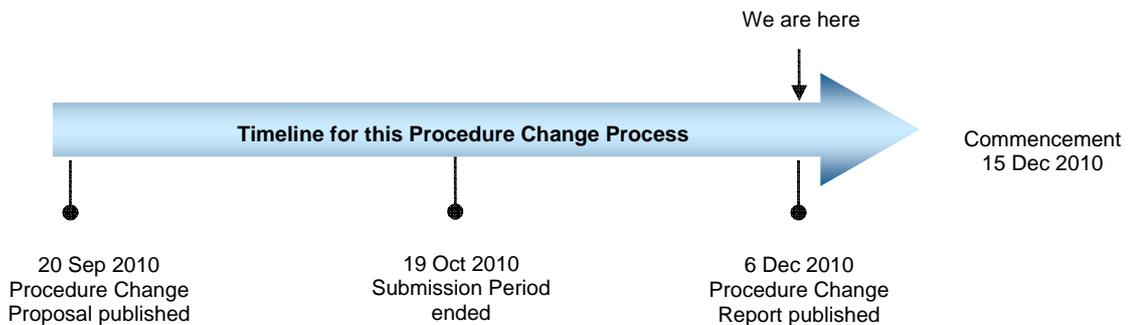


1. INTRODUCTION

On 20 September 2010, the Independent Market Operator (IMO) published a Procedure Change Proposal titled “Changes to Market Procedure for Certification of Reserve Capacity”. The proposal has been processed according to the Procedure Change Process under clause 2.10 of the Wholesale Electricity Market Rules (Market Rules). This process adheres to the following timelines:



The key dates in processing this Procedure Change Proposal are:



2. THE PROCEDURE CHANGE PROPOSAL

2.1 Details of the Proposal

In its Procedure Change Proposal, the IMO noted that to enable it to conduct a fair and equitable assessment of all applications for Certification of Reserve Capacity (CRC), the information provided by Market Participants needs to be of high quality and detail. On many occasions the information supplied to the IMO has been sparse, requiring the IMO to request further information from Market Participants to complete its assessment of the application.

The IMO proposed a number of amendments to the Market Procedure for Certification of Reserve Capacity to assist the IMO's decision to assign CRC to a Facility. These included the provision of:

- financing information as part of a Market Participants annual application for CRC;

- temperature dependence information, based on the advice of Sinclair Knight Merz (SKM)¹; and
- environmental approval information including details of which environmental approvals are required and the status of each one.

The IMO considered that the provision of this additional information would ensure that an appropriate amount of CRC for each Facility is set, and allow the IMO to determine the viability of a new project and its prospects of proceeding through to completion before the start of the relevant Capacity Year.

The IMO also proposed amendments to the Market Procedure (Section 1.9) to:

- specify the steps for applying for and approving Early Certified Reserve Capacity. This will ensure consistency with the Rule Change Proposal: Early Certified Reserve Capacity (RC_2009_10); and
- improve the integrity of the Market Procedure by including a number of minor and typographical amendments.

The proposed amended Market Procedure was discussed by the IMO Market Procedures Working Group at its 25 March 2009 and 22 April 2010² meetings. Minutes from both meetings are available at: <http://www.imowa.com.au/IMO-Procedures-Working-Group>

Full details of the Procedure Change Proposal are available at: http://www.imowa.com.au/PC_2010_06

3. PUBLIC CONSULTATION PERIOD

3.1 Submissions received

The public submission period was between 21 September 2010 and 19 October 2010. The IMO did not receive any formal submissions during the submission period. An out of session submission has however received from Landfill Gas & Power (LGP).

LGP's submission is summarised below. The full text is available on the IMO website.

3.1.1 Out of session submission from Landfill Gas & Power

LGP supports the proposed changes as significantly enhancing the clarity and coverage of the existing procedure and notes that further changes to the Market Procedure reflect the new format and are the outcomes of a wider review of the certification process being undertaken by the IMO.

¹ A copy of the advice received from SKM was provided as appendix 1 to the IMO's Procedure Change Proposal

² Note that the amendments proposed under PC_2010_06 were previously proposed under PC_2009_04 (now discontinued) which was discussed by the Working Group.

LGP raises a concern about the requirement for temperature dependence curves to be specified by the manufacturer in five degree intervals. LGP suggests that there is sometimes genuine difficulty in obtaining temperature dependence curves from the manufacturer and that an independent engineering firm should be required to interpolate whatever manufacture's data is reasonably available, be it more closely spaced or otherwise.

Wholesale Market Objectives

Subject to their concern, LGP considers that the changes are principally administrative and that the clarifications are reasonable. Consequently they have no material bearing on the Market Objectives other than to improve their integrity via improved clarity.

Implications for organisation and associated costs

LGP notes that the five degree spacing of the temperature curve is of concern, noting that its temperature curve is specified by the manufacturer every 10 degrees and is independent of temperature throughout the range 10 to 50 degrees. LGP considers that it would be difficult to obtain spacing of 5 degrees, which would presumably just confirm the constant performance.

3.2 The IMO's response to submissions

The IMO included in Appendix A of the proposed amended Market Procedure that the temperature dependence curve can also be verified by an independent engineering firm in intervals of up to five degrees, where the intervals between each verified level must be a linear interpolation.

4. THE IMO'S ASSESSMENT

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

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

The Procedure Change Report prepared by the IMO must contain:

- the wording of the proposed Market Procedure or amendment to or replacement for the Market Procedure;
- the reason for the proposed Market Procedure or amendment to or replacement for the Market Procedure;

- all submissions received before the due date, a summary of those submissions and the response of the IMO or System Management, as applicable, to any issues raised;
- a summary of the views of the Market Advisory Committee (MAC), and if the MAC has delegated its role to consider the Procedure Change Proposal to a Working Group, a summary of the views expressed by that Working Group; and
- a proposed date and time for the Market Procedure or amendment to or replacement to commence, which must allow sufficient time, in the IMO's opinion, after the date of publication for Rule Participants to implement changes required by it (clause 2.10.13).

The IMO's assessment is outlined in the following sections.

4.1 Wholesale Market Objectives

Market Procedures must be consistent with the Wholesale Market Objectives (clause 2.9.3(a) ii).

The IMO considers that the Market Procedure, as a whole, if amended will improve the Wholesale Market Objectives, particularly Objective (a). By gaining detailed capacity data at the beginning and not having to request further information, improves economic efficiency. Furthermore, the greater detail will give System Management a truer understanding of the capacity has available for dispatch, making the System more reliable.

Wholesale Market Objective	Consistent with 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	Yes
(b) to encourage competition among generators and retailers in the South West interconnected system, including by facilitating efficient entry of new competitors	Yes
(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	Yes
(d) to minimise the long-term cost of electricity supplied to customers from the South West interconnected system	Yes
(e) to encourage the taking of measures to manage the amount of electricity used and when it is used	Yes

4.2 Wholesale Market Rules, the Electricity Industry Act and Regulations

The IMO considers that the proposed amended Market Procedure is consistent, as a whole, with the Market Rules, the Electricity Industry Act and Regulations.



The IMO also considers that the Market Procedure is consistent with all other Market Procedures.

4.3 Views expressed in submissions

During the consultation period the IMO received one submission, from LGP, which largely supported the proposed amendments but expressed concerns about the difficulty in having the temperature dependence curve specified by the manufacturer in five degree intervals.

The IMO's response to this submission outlined in section 3.2 of this report.

4.4 Implementation of the Market Procedure

The Market Procedure will not require Rule Participants or the IMO to implement any procedural or system amendments before it can commence. Consequently, the IMO considers that commencement at 8:00am on 15 December 2010 will allow Rule Participants sufficient time from the date of publication of this Procedure Change Report to ensure compliance with the amended Market Procedure.

4.5 Views of the Market Advisory Committee or a Working Group delegated to consider the Procedure Change Proposal

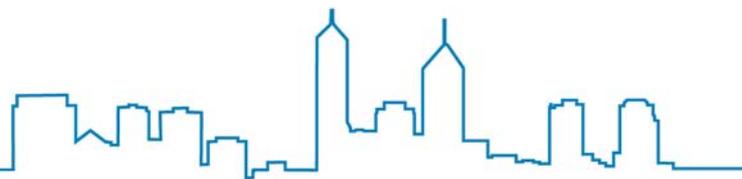
The MAC has delegated the role of considering IMO Procedure Change Proposals to the IMO Procedure Change and Development Working Group (Working Group) (clause 2.3.17(a)). Therefore the MAC has not reviewed the Procedure Change Proposal. However, in accordance with clauses 2.10.8 and 2.10.9 the IMO notified the MAC once the Procedure Change Proposal had been published and noted that it would convene a meeting of the MAC to discuss should two or more members request it. No MAC member contacted the IMO in this regard.

The Working Group discussed the Procedure Change Proposal at its 25 March 2009 and the 22 April 2010 meetings. A summary of the discussion at these two meetings is presented below. A full copy of the minutes is available at: <http://www.imowa.com.au/n626>

March 2009 Meeting

The Working Group noted the following points:

- Section 1.5.8: It was questioned if the screen shot was of an applicant's screen or a generic screen. The IMO confirmed it was a generic screen shot;
- Section 1.7.13 & 1.10.3(d): The Working Group noted that there may be further changes to these clauses following DSM Rule Change (RC_2010_20) which changes the aggregation of Curtailable Loads;
- Appendix A: The IMO agreed to include details in the first paragraph to clarify that this is an annual process;



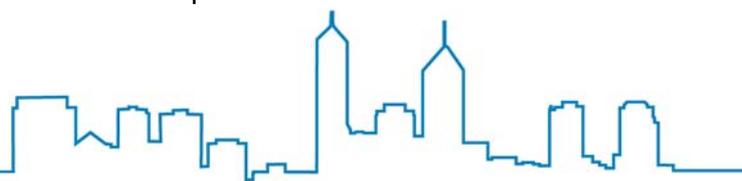
- Appendix A: Financing: The IMO agreed to amend the appendix to read "To verify permit verification of...";
- Appendix A: Temperature Dependence: The Working Group questioned whether 0.1 degree intervals were practicable and recommended the IMO consult with generators before making this change. The IMO noted that this number had been based on industry estimates and agreed to consult with generators before the procedure is submitted. The IMO also agreed to clarify who is an acceptable independent engineering firm;
- Appendix A: Environmental Approval: The IMO agreed to amend the appendix to read "...made to the Environmental Protection authority-relevant Government Agencies (Environmental Protection Authority, the Department of Environment and Conservation and the Department of the Environment and Heritage); or"; and
- Appendix A – Generator Capacity: The Working Group expressed concerns that a power factor of 0.8 was extreme for generators. The IMO noted that it would get an engineers report to review this before it progresses the procedure change.

April 2010 Meeting

During the April 2010 meeting the IMO presented the results of the engineers report prepared by SKM. The following points were raised:

- LGP queried the basis for IMO's interest in the applicable power factor. The IMO amended the proposal to include "*If no power factor is provided, the IMO will use a power factor of 0.8 when determining the capacity of the Facility*";
- Verve Energy noted that the use of 0.1°C would not capture metering errors. The IMO noted that the Metering Code requires meter errors to be within a certain tolerance;
- Verve Energy noted the use of 0.1°C would not take into account any degradation experienced with older facilities and that a curve based on 0.1°C would be difficult to provide unless a facility gets an independent consultant to test for each increment. The IMO suggested that an independent engineer could test a few points and interpolate those to develop the temperature curve; and
- LGP stated that the notion of measuring temperature to 0.1°C is unnecessary and would result in larger calculation errors. The IMO noted the alternative is to round up to a higher temperature (conservative approach), which would make passing a test harder.

Once the agreed changes had been made by the IMO, the amended Market Procedure was submitted directly into the public consultation process.



5. THE IMO'S DECISION

The IMO's decision is to approve the proposed Market Procedure for Certification of Reserve Capacity as proposed in the Procedure Change Proposal.

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

- is consistent with the Wholesale Market Objectives;
- is consistent with the Market Rules, Electricity Industry Act and Regulations;
- had the general support of the Working Group; and
- requires no system changes prior to implementation.

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 for Certification of Reserve Capacity will commence at 8.00am on 15 December 2010.

6.2 *The Amended Market Procedure*

The amended Market Procedure for Certification of Reserve Capacity is attached to this report and is also available on the IMO's website: http://www.imowa.com.au/PC_2010_06.