
Wholesale Electricity Market – Procedure Change Proposal

Procedure Change No: PC_2012_08

Change requested by:

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Procedure change title:	Changes to Market Procedure for determination of the Maximum Reserve Capacity Price
Market Procedure affected:	Market Procedure for determination of the Maximum Reserve Capacity Price

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..

Details of Procedure Change Requested

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

The Market Procedure for determination of the Maximum Reserve Capacity Price (Procedure) describes the methodology that the IMO must use and the steps that the IMO must undertake in determining the Maximum Reserve Capacity Price (MRCP) in each Reserve Capacity Cycle.

The IMO proposes a number of amendments to the Market Procedure. The majority of these amendments were discussed by the IMO Procedure Change and Development Working Group at the 14 August 2012 meeting.

In addition, the IMO proposes to amend the value of Gamma that is used in the calculation of the Weighted Average Cost of Capital (WACC). This change was discussed at a stakeholder workshop on 1 November 2012.

Further information on the proposed changes is provided below.

Amendments discussed at the IMO Procedure Change and Development Working Group

The IMO proposes to update the Procedure to ensure consistency with the Amending Rules resulting from the Rule Change Proposal: Competitive Balancing and Load Following markets (RC_2011_10)¹. In particular the IMO proposes to update the definition of Power Station upon which the Maximum Reserve Capacity Price is based to include the minimum level of equipment or systems required to satisfy Balancing Facility Requirements (step 2.1.1). In addition the IMO proposes the following minor changes.

- Update the list of Market Procedures associated with this Procedure under section 1.4; and

¹ For further details refer to the following webpage: http://www.imowa.com.au.RC_2011_10

- Clarification of Terminologies and Definitions (step 1.6.1).

These proposed amendments were discussed by the IMO Procedure Change and Development Working Group at the 14 August 2012 meeting. Minutes from the meeting are available on the following webpage: <http://www.imowa.com.au/IMO-Procedures-Working-Group>

Amendment discussed at the WACC in the Maximum Reserve Capacity Price stakeholder workshop

The Market Procedure currently prescribes a Franking credit value of 0.5 in the WACC. However, following a decision by the Australian Competition Tribunal in May 2011², both the Australian Energy Regulator (AER) and Economic Regulatory Authority (ERA) have regularly applied a value of 0.25 in regulatory decisions.

The IMO received advice in relation to this change from PricewaterhouseCoopers, which is published with this Procedure Change Proposal. The IMO invited members of the Market Advisory Committee (MAC) and former members of the Maximum Reserve Capacity Price Working Group (MRCPWG) to a stakeholder workshop on 1 November 2012 to discuss the proposed change, at which broad agreement was reached to progress this in a Procedure Change Proposal.

The IMO is seeking submissions regarding this proposal. The submission period is 20 Business Days from the publication of this Procedure Change Proposal. Submissions must be delivered to the IMO by **Monday, 10 December 2012**.

The IMO prefers to receive submissions by email to market.development@imowa.com.au using the submission form available on the IMO website: <http://www.imowa.com.au/procedure-changes>

Submissions may also be sent to the IMO by fax or post, addressed to:

Independent Market Operator
Attn: Group Manager, Market Development
PO Box 7096
Cloisters Square, Perth, WA 6850
Fax: (08) 9254 4399

2. Provide the wording of the Procedure

The proposed amended Procedure is provided as an attachment to this proposal.

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 Procedure has been reviewed as a whole by the IMO to ensure compliance of the Market Procedure with the relevant provisions in the:

- Market Rules;

² Application by Energex Limited (Gamma) (No 5) [2011] A CompT 9 (12 May 2011)

- Electricity Industry Act; and
 - Regulations.
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4. Describe how the proposed changes to the Market Procedure would be consistent with the Wholesale Market Objectives

The steps described in the proposed amended Market Procedure for determination of the Maximum Reserve Capacity Price facilitate the determination of the Maximum Reserve Capacity Price under clause 4.16 of the Market Rules.

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 Reserve Capacity Testing, as a whole, is consistent with the Wholesale Market Objectives.