



INDEPENDENT
MARKET
OPERATOR

Procedure Change Report

Changes to Market Procedure for Reserve Certification of Reserve Capacity

PC_2013_06

Procedure Change Process

Date: 19 December 2014

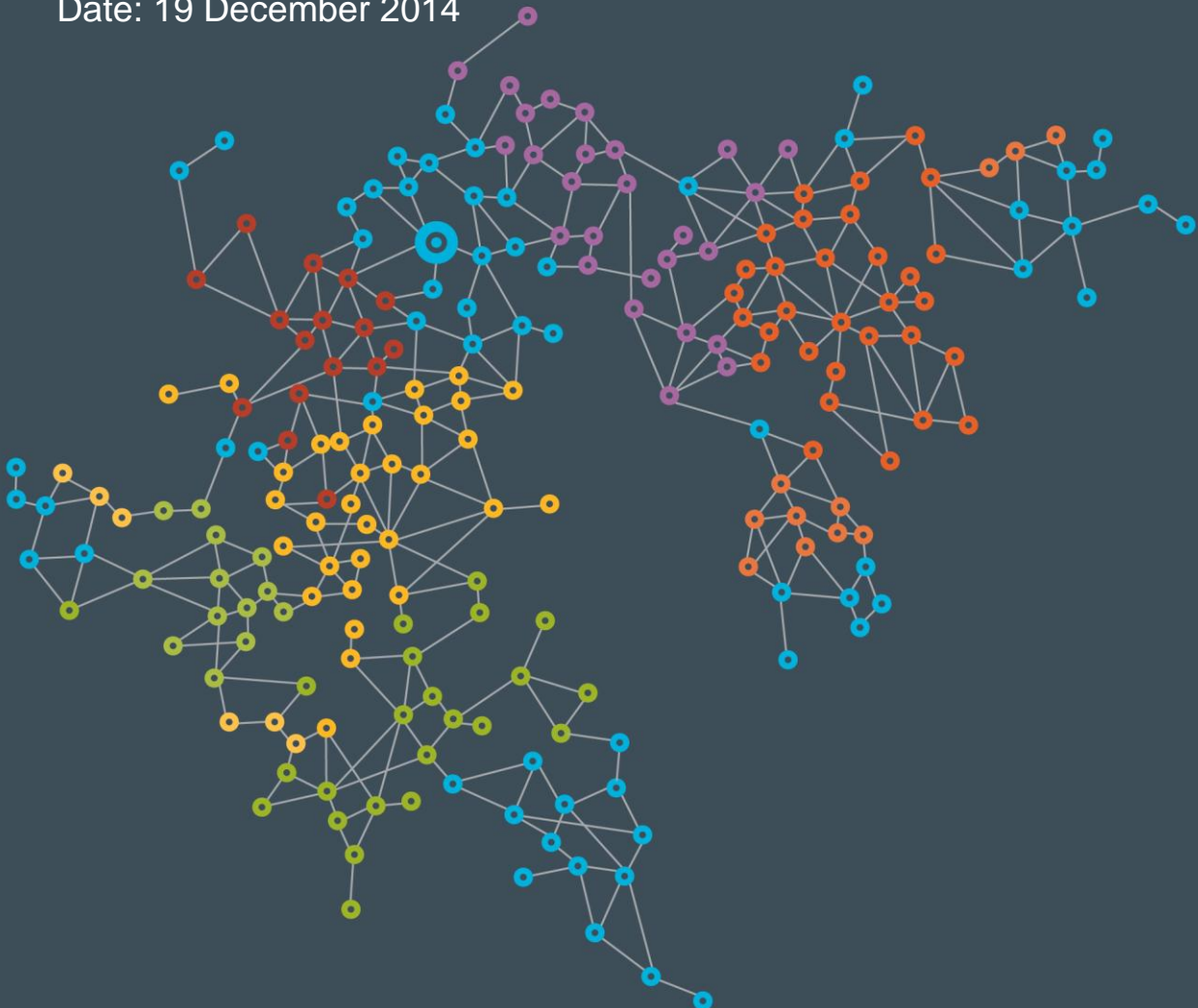


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Executive Summary

Proposed amendments

The IMO proposed several amendments to the Market Procedure: Certification of Reserve Capacity (Market Procedure) to:

- ensure consistency with the Amending Rules for Rule Change Proposal: Consideration of Network Constraints on Certified Reserve Capacity (RC_2012_20)¹, and the proposed Amending Rules for Rule Change Proposals: Incentives to Improve Availability of Scheduled Generators (RC_2013_09)² and Harmonisation of Supply-Side and Demand-Side Capacity Resources (RC_2013_10)³;
- provide details of the factors that may be considered by the IMO when determining whether a Facility that has not been in Commercial Operation for 36 months meets the criteria in clause 4.11.1(h)(ii) of the Wholesale Electricity Market Rules (Market Rules);
- provide details of the process the IMO will use if it receives multiple applications relating to a shared Declared Sent Out Capacity (DSOC) and the sum of the levels of unconstrained network access nominated in the applications exceeds the DSOC;
- clarify how the IMO will determine the quantity referred to in clause 4.11.1(a) of the Market Rules where the applicant nominates more than one fuel for certification under clause 4.10.1(e)(v) of the Market Rules;
- clarify how the IMO will assess fuel supply, staffing constraints and other restrictions when assigning Certified Reserve Capacity to Scheduled Generators; and
- improve the clarity and integrity of the Market Procedure and its consistency with the IMO's standard format for Market Procedures.

Consultation

The proposed amended Market Procedure was discussed by the IMO Procedure Change and Development Working Group (IMOPWG) at its 20 September 2013 meeting. During the discussion IMOPWG members agreed a number of minor amendments to the proposed amended Market Procedure and requested the IMO clarify particular aspects of the proposed amended Market Procedure.

Following the 20 September 2013 meeting, the IMO made a number of additional amendments to the proposed amended Market Procedure. An updated version was distributed to IMOPWG members on 24 January 2014 and discussed at the IMOPWG meeting held on 6 February 2014. IMOPWG members suggested a few minor enhancements and supported the progression of the proposal into the Procedure Change Process.

Following the 6 February 2014 meeting, the IMO made the suggested amendments to the proposed amended Market Procedure to reflect the suggestions of the IMOPWG. The Procedure Change Proposal was formally submitted on 10 February 2014. The consultation period was held between 11 February and 11 March 2014.

¹ Further information is available at: www.imowa.com.au/RC_2012_20.

² Further information is available at: www.imowa.com.au/RC_2013_09.

³ Further information is available at: www.imowa.com.au/RC_2013_10.

On 12 February 2014, Alinta Energy, Bluewaters Power, ERM Power and Synergy met with the IMO to discuss a number of issues, including the IMO's proposed amendments in RC_2013_10 relating to the fuel requirements for a Facility seeking certification of a given quantity of Reserve Capacity.

The IMO received submissions from Alinta Energy, Community Electricity and Synergy. Community Electricity and Alinta Energy were generally supportive of the proposed amendments, although Alinta Energy noted that its views should be read in conjunction with its submissions on RC_2013_09 and RC_2013_10.

Synergy did not comment on the overall merits of the Procedure Change Proposal, restricting its focus to a review of the operational details of the proposed processes. Synergy reiterated its objections to the proposed amendments in RC_2013_09 and RC_2013_10, noting that nothing in its submission should be interpreted as a change to its views on those proposals.

All of the submitters provided suggestions in relation to what the fuel requirements should be for a Facility seeking certification. Both Alinta Energy and Synergy also suggested minor drafting amendments, which the IMO considered when finalising the proposed amended Market Procedure.

Ministerial Rejection of RC_2013_09 and RC_2013_10

The proposed Amending Rules in the Final Rule Change Reports for RC_2013_09 and RC_2013_10 were submitted to the Minister for Energy on 24 March 2014. On 19 May 2014, the Minister rejected both of these Rule Change Proposals. As such, the proposed amendments to this Market Procedure reflecting the proposed Amending Rules in RC_2013_09 and RC_2013_10 have been removed from the proposed amended Market Procedure.

The IMO's assessment of the proposal

The IMO considers that the proposed amended Market Procedure is consistent with the Wholesale Market Objectives and, by supporting the implementation of the Amending Rules in RC_2012_20, will better achieve Wholesale Market Objectives (a) and (d).

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

The IMO's decision

The IMO's decision is to approve the proposed amended Market Procedure: Certification of Reserve Capacity, as modified following the consultation period and excluding the proposed amendments reflecting RC_2013_09 and RC_2013_10.

Next steps

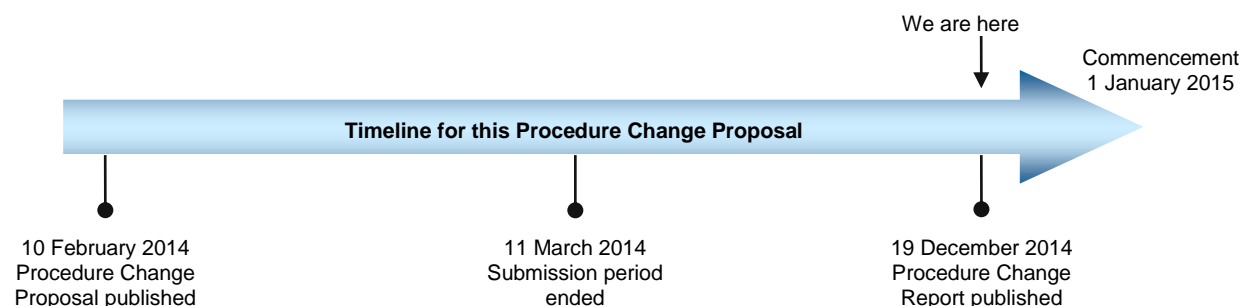
The amended Market Procedure: Certification of Reserve Capacity will commence at **8:00 AM** on **1 January 2015**.

1. Procedure Change Process and Timetable

On 10 February 2014, the IMO submitted a Procedure Change Proposal (PC_2013_06) regarding changes to the Market Procedure: Certification of Reserve Capacity (Market Procedure).

This proposal is being processed using the Procedure Change Process, described under section 2.10 of the Wholesale Electricity Market 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 Market Procedure outlines the processes that the IMO and Market Participants must follow with respect to applications for Certified Reserve Capacity or Early Certified Reserve Capacity. The Market Procedure also provides details of the process that the IMO follows in approving Capacity Credits associated with Early Certified Reserve Capacity and specifies the format of data required to be submitted in the application for certification of Reserve Capacity.

The IMO proposed changes to the Market Procedure to reflect amendments to the Market Rules resulting from the Rule Change Proposals:

- RC_2012_20⁴: Consideration of Network Constraints for Certified Reserve Capacity;
- RC_2013_09⁵: Incentives to Improve Availability of Scheduled Generators; and
- RC_2013_10⁶: Harmonisation of Supply-Side and Demand-Side Capacity Resources.

The IMO also proposed to update the Market Procedure to:

- provide details of the factors that may be considered by the IMO when determining whether a Facility that has not been in Commercial Operation for 36 months meets the criteria in clause 4.11.1(h)(ii) of the Market Rules;
- provide details of the process the IMO will use if it receives multiple applications relating

⁴ Details available at http://www.imowa.com.au/RC_2012_20.

⁵ Details available at http://www.imowa.com.au/RC_2013_09.

⁶ Details available at http://www.imowa.com.au/RC_2013_10.

to a shared Declared Sent Out Capacity (DSOC) and the sum of the levels of unconstrained network access nominated in the applications exceeds the DSOC;

- clarify how the IMO will determine the quantity referred to in clause 4.11.1(a) of the Market Rules where the applicant nominates more than one fuel for certification under clause 4.10.1(e)(v) of the Market Rules;
- clarify how the IMO will assess fuel supply, staffing constraints and other restrictions when assigning Certified Reserve Capacity to Scheduled Generators; and
- improve the clarity and integrity of the Procedure and its consistency with the IMO's standard format for Market Procedures.

The relevant Amending Rules from RC_2012_20, which relate to the process for assessing Certified Reserve Capacity, commenced on 1 July 2013. On 19 May 2014, the Minister rejected RC_2013_09 and RC_2013_10. Refer to section 4.1 below for more information.

3. Consultation

3.1. Market Advisory Committee and IMO Procedure Change and Development Working Group

The Market Advisory Committee (MAC) has delegated the consideration of IMO Procedure Change Proposals to the IMO Procedure Change and Development Working Group (IMOPWG) and so did not review this Procedure Change Proposal. However, 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 proposed amended Market Procedure was discussed by the IMOPWG at its 20 September 2013 meeting. In addition to proposing a number of minor amendments to improve clarity and integrity, IMOPWG members requested that the IMO update the proposed amended Market Procedure to provide greater clarity around:

- how the IMO will 'split' a shared DSOC for the purposes of certification; and
- the treatment of applications for certification of 'dual fuel' Facilities.

The IMO made a number of additional changes to the proposed amended Market Procedure following the 20 September 2013 meeting, to:

- reflect the feedback provided by the IMOPWG;
- reflect the additional amendments to the Market Rules proposed in the Draft Rule Change Report for RC_2013_09;
- include additional detail (in step 3.5.2 of the Market Procedure) on the factors that may be considered by the IMO when determining whether a Facility that has not been in Commercial Operation for 36 months meets the criteria in clause 4.11.1(h)(ii) of the Market Rules;
- include a requirement for the IMO to specify the due date for any additional information requested under clause 4.11.1B(a) of the Market Rules;
- remove the references to Peak Trading Intervals on Business Days in section 4.4 of the Market Procedure;

- clarify in step 5.4.1 of the Market Procedure that a Facility applying for assessment under clause 4.11.2(b) of the Market Rules may be assigned a lesser quantity of Certified Reserve Capacity if it satisfies the criteria set out in clause 4.11.1(h) of the Market Rules; and
- further improve the overall clarity and integrity of the Market Procedure.

The updated Market Procedure was provided to IMOPWG members on 24 January 2014 for out of session comment. Three members suggested that the IMOPWG meet to discuss the updated proposed amended Market Procedure, with one member suggesting that the changes to clarify the fuel requirements for certification would likely benefit from broader discussion by the group. Accordingly, the IMO presented the updated Market Procedure for discussion at the IMOPWG meeting held on 6 February 2014. At this meeting the IMO agreed to:

- amend the defined term 'Temperature Dependence Curve', so that it can be determined not only by an independent engineering firm but also by what is detailed in the manufacturer's technical specifications;
- consider whether the order of the factors listed in step 3.5.2 of the Market Procedure could be amended to provide additional clarity; and
- re-order the list in step 3.5.7 of the Market Procedure to put the mandatory requirement first.

There was considerable discussion regarding how the IMO would assess whether there is sufficient fuel and certainty of fuel supply for a Facility seeking certification of a given quantity of Reserve Capacity. Some concerns were raised that the current drafting (which had removed the 14 hour fuel requirement to reflect the changes in RC_2013_10) was too vague and introduced uncertainty and regulatory risk. The Chair noted that there was a trade-off between certainty and flexibility in this case and invited suggestions from IMOPWG members. No solution was agreed upon, although the following suggestions and principles were discussed:

- It was suggested that the fuel requirement threshold could be linked to whether the Facility is available during 'peak periods' (not to be defined further). However, it was concluded that the use of this term may not actually provide greater certainty to Market Participants.
- The assessment of fuel is not required to consider the implications of an external disruption to fuel supply, and it was noted that this scenario is not considered in the Planning Criterion.
- The IMO would take into account and should be notified where a Market Participant anticipates a change in the operating characteristics of its Facility that may affect its fuel requirements (e.g. a move from base load to peaking operation).

The IMO agreed to review section 4.3 of the Market Procedure, but was not able to identify any further amendments that would provide greater certainty to Market Participants without sacrificing the intended flexibility or introducing further uncertainty.

Minutes from the 20 September 2013 and 6 February 2014 IMOPWG meetings are available on the Market Web Site: <http://www.imowa.com.au/IMO-Procedures-Working-Group>.

The IMO published the Procedure Change Proposal on 10 February 2014, and in it specifically invited Market Participants to provide suggestions on how section 4.3 of the Market Procedure

could be enhanced to strike a balance between certainty and flexibility in a manner consistent with the proposed changes in RC_2013_10.

3.2. Public workshops and stakeholder meetings

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

On 12 February 2014 Alinta Energy, Bluewaters Power, ERM Power and Synergy met with the IMO to discuss a number of issues, including the IMO's proposed amendments in RC_2013_10 relating to the fuel requirements for a Facility seeking certification of a given quantity of Reserve Capacity. At this meeting, the IMO clarified that the intent of proposed changes was to be less prescriptive, to make the requirements more flexible (and thus more efficient) and to follow the general principle that a Facility needs to have appropriate fuel supplies to be available when required. The IMO confirmed that the intention was not to require evidence of firm and non-firm fuel supplies at a more arduous level than is currently required.

3.3. Submissions received during consultation period

The consultation period for the Procedure Change Proposal was held between 11 February and 11 March 2014. The IMO received three submissions during the consultation period from Alinta Energy, Community Electricity and Synergy.

Community Electricity supported the proposed amendments on the grounds that they incrementally clarified, extended and updated the Market Procedure to reflect recent rule changes and thereby enhanced the integrity of the market. Community Electricity also noted that in regard to the fuel requirements for a dual fuel Facility:

- the secondary fuel should be considered as supplementing the availability of the primary fuel; and
- the certified quantity should not be limited by the most constrained fuel.

Alinta Energy was generally supportive of the proposed amendments to the Market Procedure. However, it noted that its views should be read in conjunction with its formal submissions on RC_2013_09 and RC_2013_10. In particular, Alinta noted that the fuel requirements for a Facility seeking certification should:

- be confirmed as being no higher than those currently prescribed;
- be underpinned by a documented principle that the IMO would take into account when making such assessments (and proposed words for inclusion in the Market Procedure); and
- be supported by a documented overview of how the IMO would apply the new test prescribed in the Market Procedure.

Alinta Energy also suggested that step 3.2.2 of the Market Procedure should specify the timelines for the IMO to request information from a Market Participant where it considers that the information which has been provided by the Market Participant is insufficient for it to make its assessment of an application for Certification of Reserve Capacity.

Synergy did not comment on the overall merits of the Procedure Change Proposal, restricting its focus to a review of the operational details of the proposed processes. Synergy reiterated its objections to the proposed amendments in RC_2013_09 and RC_2013_10, noting that:

- the proposed amendments in RC_2013_09 were not necessary in their entirety, and that the IMO could have achieved the same outcome by implementing a subset of, and/or modification to, the measures outlined in that Rule Change Proposal;
- a better outcome than seeking to harmonise demand and supply side capacity resources, as proposed in RC_2013_10, could be achieved by recognising that Demand Side Management is a limited product and developing alternative compensation measures or capacity products to reflect that; and
- the business case for telemetry at the Associated Load level, as outlined in RC_2013_10, had not yet been adequately made.

Synergy further noted that nothing in its submission should be interpreted as a change to its views on the Rule Change Proposals. In its submission on this Procedure Change Proposal, Synergy supported a less prescriptive approach to defining the fuel requirements for a Facility seeking certification, and suggested that the IMO should document this principle, and the principle that the IMO would not require evidence of firm and non-firm fuel supplies at a more arduous level than is currently required. Synergy also suggested some minor amendments to improve the clarity of the Market Procedure.

Community Electricity considered the proposed amendments to the Market Procedure to be consistent with all the Wholesale Market Objectives. Neither of the other submitters directly commented on whether the Procedure Change Proposal was consistent with the Wholesale Market Objectives.

A copy of the submissions in full received during the submission period is available on the Market Web Site: http://www.imowa.com.au/PC_2013_06.

The IMO's response to the issues raised in submissions (other than those relating to the associated Rule Change Proposals), is provided in the table on the following pages.

Submitter	Suggestion	Response
Alinta Energy	Step 3.2.2 – It would be valuable to specify the timelines for the IMO to request information from a Market Participant where it considers that the information is insufficient to make its certification assessment. Alinta appreciates that it may not be possible to hardwire a requirement and so suggests that the obligation be “as soon as practicable”. This will ensure that participants will have the maximum available time to provide additional information.	The IMO agrees with this suggestion and has included it in step 3.2.2 of the proposed amended Market Procedure.
Synergy	Step 3.5.7(d) provides the IMO with the ability to consult with either System Management or any person the IMO considers suitably qualified to provide an opinion. For clarity and consistency of drafting Synergy considers that this sub-step should refer to clause 4.11.1B(c).	The IMO notes that the proposed amendments to this step have been removed as a result of the rejection of RC_2013_09. See section 4.1.
Synergy	<p><u>Steps 4.1.1, 4.3.4 and 4.3.5:</u></p> <ul style="list-style-type: none"> - Step 4.1.1 notes that if more than one fuel is nominated for a Facility the maximum sent out capacity will be determined for each fuel independently and for the purposes of the Procedure the IMO will use the minimum of the quantities determined for each fuel (new). - Step 4.3.4 notes that if more than one fuel is nominated for a Facility the IMO will determine whether it reasonably expects that the Facility is likely to be available for each fuel at the capacity determined in step 4.1.1. - Step 4.3.5 outlines that if the IMO reasonably expects that the Facility is likely to be able to be available on each fuel at the level of capacity outlined in step 4.1.1 then that Facility will be considered a dual fuel Facility for the purpose of Certified Reserve Capacity. <p>Synergy notes that step 4.1.1 determines the minimum quantity and then step 4.3.4 determines whether the IMO reasonably expects the quantity to be available. Synergy is not convinced that both steps are required.</p>	The IMO notes that the proposed amendments to these steps have been removed as a result of the rejection of RC_2013_10. See section 4.1.

Submitter	Suggestion	Response
Synergy	Step 4.1.3(c): For consistency of drafting with table 1 of the procedure should “engineering contractor” be replaced with “independent engineering firm”?	The IMO agrees with this suggestion and has included it in Step 4.1.3(c) of the proposed amended Market Procedure.
Synergy	Steps 4.2.1 and 5.2.1 their interaction with (new) section 3.7: should these steps include a link to the new process outlined in section 3.7?	The IMO agrees with this suggestion and has included it in Steps 4.2.1 and 5.2.1 of the proposed amended Market Procedure.
Synergy	4.5.1(b), (e) and (f): Sub-step (b) uses the term “a lesser quantity of capacity”, substeps (e) and (f) use the term “a lower level of capacity”. The drafting in these substeps should be consistent.	The IMO agrees with this suggestion and has replaced the term “a lower level of capacity” in steps 4.5.1(e) and (f) with “a lesser quantity of capacity”, consistent with step 4.5.1(b) of the proposed amended 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 that Market Procedures are:

- 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.

During the consultation period, the IMO received three submissions on the proposed amended Market Procedure. All issues and suggestions raised by the submitters have been considered by the IMO in conducting its assessment.

4.1. Further changes to the Market Procedure

The IMO notes that following the consultation period it has made minor amendments to the proposed amended Market Procedure to reflect the suggestions received by Alinta Energy and Synergy, and to ensure consistent formatting throughout the Market Procedure.

Ministerial Rejection of RC_2013_09 and RC_2013_10

The proposed Amending Rules in the Final Rule Change Reports for RC_2013_09 and RC_2013_10 were submitted to the Minister for Energy on 24 March 2014. On 19 May 2014, the Minister rejected both of these Rule Change Proposals. As such, the proposed amendments to this Market Procedure reflecting the proposed Amending Rules in RC_2013_09 and RC_2013_10 have been removed from the proposed amended Market Procedure. Specifically, the relevant proposed amendments to steps 3.5, 4.1, 4.3, 4.4, 4.5 and 5.4.1(c) of the Market Procedure have been removed.

4.2. Wholesale Market Objective assessment

The IMO considers that the steps described in the proposed amended Market Procedure will facilitate the processes for certifying Reserve Capacity as described in section 4.27 of the Market Rules. Specifically, the IMO considers that the proposed amendments to the Market Procedure:

- support the changes in the Amending Rules for RC_2012_20 (which better achieve Wholesale Market Objectives (a) and (d)); and
- improve the overall clarity and integrity of the Market Procedure.

The IMO considers that the steps in the proposed amended Market Procedure are drafted in a way that does not change the operation or objectives of the Market Rules as amended by RC_2012_20. As a result, the IMO considers that the proposed amended Market Procedure is consistent with the Wholesale Market Objectives.

4.3. The Electricity Industry Act, Regulations and Market Rules

The IMO considers that the proposed amended Market Procedure is consistent, as a whole, with the Market Rules (as amended by RC_2012_20), the Electricity Industry Act and

Regulations.

4.4. Implementation of the Market Procedure

The IMO notes it will need to make some changes to its internal processes, and that these changes can be accommodated within the IMO's existing operating budget. No Market Participant has identified any issues with the practicality of implementation of the proposed amended Market Procedure.

The IMO considers that commencement at **8:00 AM** on **1 January 2015**, will allow the IMO and Market Participants sufficient time from the date of publication of this Procedure Change Report to ensure compliance with the amended Market Procedure.

5. The IMO's decision

The IMO's decision is to approve the proposed amended Market Procedure as amended following the consultation period.

The IMO has made its decision on the basis that the proposed amended Market Procedure:

- will support the operation of the Market Rules as amended by RC_2012_20;
- is consistent with the Wholesale Market Objectives;
- is consistent with the Market Rules, the Electricity Industry Act and Regulations; and
- has the general support of the IMOPWG and those submissions received during the consultation period that expressed a view on the merits of the proposal.

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: Certification of Reserve Capacity will commence at **8.00 AM** on **1 January 2015**.

6.2. The amended Market Procedure

The amended Market Procedure: Certification of Reserve Capacity is attached to this Procedure Change Report and is also available on the Market Web Site: http://www.imowa.com.au/PC_2013_06.