



**Independent Market Operator**

**Procedure Change Report  
Title: Changes to Market Procedure for  
Reserve Capacity Security**

**PC\_2012\_01**

**Procedure Change Process**

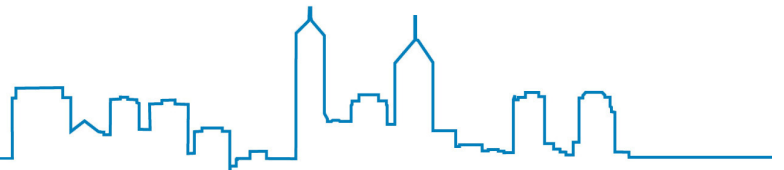
**Date: 20 March 2012**

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## EXECUTIVE SUMMARY

### ***Procedure Change Proposal***

Following the significant review of the administration of Reserve Capacity Security (RCS) the proposed amended Market Procedure for RCS has been revised in accordance with the increased heads of power for the Market Procedure to enhance the transparency of the process and to reflect the Amending Rules that resulted from the Rule Change Proposal: Required Level and RCS (RC\_2010\_12). The revised Market Procedure also incorporates solutions to a recently identified issue relating to the return of RCS for Demand Side Programmes.

### ***Consultation***

- The proposed amendments were discussed at the IMO Procedure Change and Development Working Group during its 28 March 2011 meeting and provided out of session for comment by Working Group members on 6 December 2011.
- The IMO formally submitted the Procedure Change Proposal and issued a notice calling for submissions on 18 January 2012.
- The IMO received one submission from Landfill Gas & Power which supported the Procedure Change Proposal.

### ***The IMO's Assessment of the proposal***

The IMO has found the proposed amendments to better Wholesale Market Objective (c) and to be consistent with the remaining Wholesale Market Objectives.

### ***The IMO's Decision***

The IMO's decision is to accept the Procedure Change Proposal as modified following the public consultation period.

### ***Next steps***

The amended Market Procedure for Reserve Capacity Security will commence at **8:00am on Monday, 2 April 2012.**

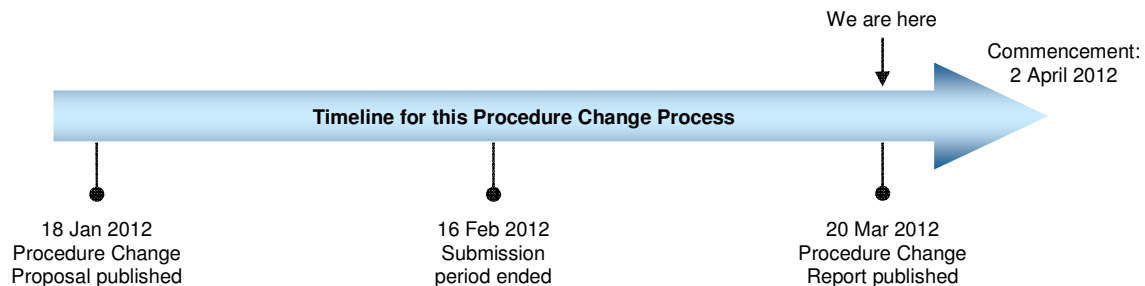


## 1. PROCEDURE CHANGE PROCESS AND TIMELINE

On 18 January 2012, the Independent Market Operator (IMO) published a Procedure Change Proposal titled “Changes to Market Procedure for Reserve Capacity Security”.

The proposal has been processed according to the Procedure Change Process under clause 2.10 of the Wholesale Electricity Market Rules (Market Rules).

The key dates in processing this Procedure Change Proposal are:



## 2. PROCEDURE CHANGE PROPOSAL

Following a comprehensive review of the administration of Reserve Capacity Security, several issues with the process were identified by the IMO. To enact the outcomes of the IMO’s review, proposed solutions to each of the issues were developed in conjunction with the Market Advisory Committee. For full details of the issues and the proposed solutions refer to the Rule Change Notice for the Rule Change Proposal: Required Level and Reserve Capacity Security (RC\_2010\_12), available from: [http://www.imowa.com.au/RC\\_2010\\_12](http://www.imowa.com.au/RC_2010_12).

As part of the rule change process, the IMO undertook to develop an amended Market Procedure for Reserve Capacity Security (Market Procedure) to incorporate process details around the determination, provision and return of security that were reflective of any amendments resulting from RC\_2010\_12. To facilitate this the IMO proposed to increase the scope of the heads of power for the Market Procedure, to allow for these more operational details to be specified within it, thereby enhancing transparency of the process.

In addition, the IMO has recently identified an issue with regard to the return of Reserve Capacity Security for Demand Side Programmes (DSPs). In particular, the Market Rules and current Market Procedure allow Market Customers with DSPs to shift loads between DSPs simply for the purpose of ensuring the return of Reserve Capacity Security. The IMO considers that this practice would be contrary to the intention of the IMO holding a Reserve Capacity Security for a Facility until such time as it can prove it can meet its capacity obligations. The IMO also notes that this practice would be inconsistent with the treatment of Market Generators who do not have the same flexibility to shift capacity between generation systems under either the Market Rules or Market Procedures.

The IMO proposes to address this issue by allowing each associated Non-Dispatchable Load or Interruptible Load to be considered for the return of only one Reserve Capacity Security in each



Capacity Year – that is the first DSP to which it is associated with that meets either the 90% or 100% test. Also, the IMO will not consider the performance of a DSP for the return of Reserve Capacity Security in Trading Intervals for which the Market Participant has failed to fill its other DSPs.

Overall, the IMO has updated the Market Procedure to:

- reflect the IMO’s new format arising from its Market Procedure project;
- reflect the broader heads of power for the Market Procedure;
- reflect the agreed outcomes from the IMO Procedure Change and Development Working Group’s discussion (and subsequent out of session submissions);
- address the inconsistency with regard to the return of Reserve Capacity Security; and
- ensure consistency with the proposed Amending Rules that resulted from the following Rule Change Proposals:
  - Reserve Capacity Security (RC\_2010\_12);
  - Certification of Reserve Capacity (RC\_2010\_14);
  - Acceptable Credit Criteria (RC\_2010\_36); and
  - List of Entities meeting the Acceptable Credit Criteria (RC\_2011\_04)

Full details of the Procedure Change Proposal are available on the Market Web Site: [http://www.imowa.com.au/PC\\_2012\\_01](http://www.imowa.com.au/PC_2012_01)

### 3. CONSULTATION

#### 3.1 Market Advisory Committee or Working Group

The Market Advisory Committee (MAC) has delegated to the IMO Procedure Change and Development Working Group (Working Group) (clause 2.3.17(a)) and accordingly 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 proposed amendments were discussed by the IMO Procedure Change and Development Working Group during its 28 March 2011 meeting. A further update to the Market Procedure to reflect the agreed changes from the March 2011 meeting and to incorporate the proposed restriction on the ability of loads to be shifted between DSPs for the purposes of returning a Reserve Capacity Security was provided to Working Group members for out of session comment on 6 December 2011. No comments were received by the IMO on the further amendments. Subsequent to providing the Market Procedure to the Working Group for comment, the IMO has made a few further minor amendments to the Market Procedure to improve its integrity and clarify the associated processes.

For further details of the discussion at the March 2011 Working Group meeting and the IMO’s response to submissions received out of session following this meeting refer to the following webpage: <http://www.imowa.com.au/IMO-Procedures-Working-Group>.

### 3.2 Submissions received during consultation period

The public consultation period for the proposed amended Market Procedure was between 19 January and 16 February 2012. The IMO received a submission from Landfill Gas & Power (LGP) during this period. The main points raised in LGP's submission are summarised below. The full text of the submission is available on the IMO website.

In summary, LGP supported the proposed amended Market Procedure as it is central to the development of the market and corrects a manifest error and otherwise harmonises the procedure with a number of rule changes that have indirect impact. In particular, LGP supports the clarification that a load participating in a DSP can be used only once in a Capacity Year in respect of a claim for the return of RCS for a DSP.

LGP considers that the proposed changes support Market Objectives (a) and (c) and is in harmony with the other objectives.

## 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.

During the public consultation phase the IMO received one submission from LGP on the new proposed Market Procedure. LGP's comments have been considered by the IMO in conducting its assessment.

### 4.1 Further changes to the amended Market Procedure

The IMO notes that following the public consultation process it has:

- clarified the definition of ability of Temperature Dependence Curve to reflect that a Market Participant may update the curve provided previously at the time of certification, consistent with current practice. The proposed definition originally matched the Market Procedure for Reserve Capacity Testing, but suggested that an update to the curve can only occur after a change in the number of Capacity Credits. The IMO has logged the need for the definition provided in the Market Procedure for Reserve Capacity Testing to be updated similarly; and
- included a number of additional minor and typographical amendments to improve the overall integrity of the amended Market Procedure and ensure consistency with the Market Rules.

### 4.2 Wholesale Market Objectives

The IMO considers that the proposed amendments to the treatment of loads shifting between DSPs will better Market Objective (c) by removing a current discrimination towards DSPs for the



purposes of the return of a Reserve Capacity Security while not restricting their ability to shift loads between DSPs for other purposes.

The IMO notes that the remainder of the steps described in the proposed amended Market Procedure for Reserve Capacity Security facilitate the process outlined in section 4.13 of the Market Rules, including the determining, provision and return of security. The IMO considers that the steps are drafted in a way that does not change the operation or objectives of the Market Rules.

### **4.3 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.

### **4.4 Implementation of the Market Procedure**

The Market Procedure will not require the IMO, System Management or Market Participants to implement any procedural or system amendments before it can commence. The IMO considers that commencement at **8:00 am** on **2 April 2012** will allow Rule 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 amended Market Procedure for Reserve Capacity Security as proposed in the Procedure Change Proposal and amended following the public consultation process.

The IMO has made its decision on the basis that the proposed amendments:

- will better Market Objective (c) and are consistent with the remaining Market Objectives;
- are consistent with the Market Rules, Electricity Industry Act and Regulations; and
- require 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 Reserve Capacity Security will commence at **8.00 am** on **2 April 2012**.



## 6.2 The Amended Market Procedure

The amended Market Procedure for Reserve Capacity Security is attached to this report and is also available on the IMO's website: [http://www.imowa.com.au/PC\\_2012\\_01](http://www.imowa.com.au/PC_2012_01)