



INDEPENDENT
MARKET
OPERATOR

Wholesale Electricity Market Procedure Change Proposal

Procedure Change ID: PC_2012_09

Change requested by

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Address:	Level 17, 197 St Georges Terrace, Perth WA 6000
Date submitted:	15 March 2013
Urgency:	Medium
Procedure change title:	Changes to Market Procedure for Determining Loss Factors
Market Procedure affected:	Market Procedure for Determining Loss Factors

Introduction

The 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;
 - 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 Determining Loss Factors (Procedure) documents the standards, methodologies, classification systems and procedures to be used in determining Loss Factors for connection points in the Wholesale Electricity Market (WEM).

Section 2.27 of the Market Rules outlines the requirements for the determination of Loss Factors in the WEM. The IMO has identified a number of discrepancies between section 2.27, the Procedure and the practice that has formed over the past five years in the WEM. To resolve these discrepancies, the IMO in conjunction with Western Power has developed the Rule Change Proposal: Loss Factor Determination (RC_2012_07). RC_2012_07 was submitted into the rule change process on 20 November 2012 and the Draft Rule Change Report was published on 15 March 2013.

The IMO has also developed this Procedure Change Proposal in conjunction with Western Power. The IMO proposes to update the Procedure to:

- ensure consistency with the proposed Amending Rules for RC_2012_07;
- reflect the IMO's new format for Market Procedures;
- distinguish between those parts of the Procedure applicable to all Network Operators and those applicable to Western Power specifically;

- distinguish between processes relating to the assignment of connection points to Loss Factor Classes and processes relating to the calculation of Transmission Loss Factors and Distribution Loss Factors;
- provide greater clarity around the methodology used by Western Power to calculate Transmission Loss Factors and Distribution Loss Factors;
- remove unnecessary details relating to the determination of Loss Factor Classes for Non-Dispatchable Loads without interval meters;
- refine the methodology for calculating the Distribution Loss Factor for the Notional Wholesale Meter, to exclude consideration of interval metered connection points;
- clarify the treatment of small Entry Points;
- enhance the reassessment process, so that the IMO must provide a Market Participant seeking a reassessment of a Loss Factor with an indication of the costs of an audit and obtain the Market Participant's agreement before proceeding with the audit;
- replace the current requirements relating to the publication on the Market Web Site of "the models, procedures, processes and methodologies used to calculate Loss Factors" (see below for details);
- amend the Analysis Period used in the annual calculation of Transmission Loss Factors (see below for details); and
- ensure consistency with the Amending Rules that resulted from the Rule Change Proposal: Curtailable Loads and Demand Side Programmes (RC_2010_29).

The drafting of the proposed amended Procedure reflects the proposed Amending Rules for RC_2012_07 and so the progression of this Procedure Change Proposal is dependent on the progression of that Rule Change Proposal. It should be noted that the proposed amendments to the Market Rules and the Procedure are consistent with current practice in the WEM, with the exception of the proposed refinement to the methodology used to calculate the Distribution Loss Factor for the Notional Wholesale Meter and the recently proposed change to the Analysis Period for calculating Transmission Loss Factors.

The proposed amended Procedure was discussed by the IMO Procedure Change and Development Working Group (IMOPWG) at its 27 November 2012 meeting. Minutes from the meeting are available on the following webpage: <http://www.imowa.com.au/IMO-Procedures-Working-Group>.

In addition to proposing a number of minor amendments, the IMOPWG considered what obligations should be placed on Network Operators in relation to the documentation of their processes for calculating Loss Factors. The current Procedure contains a number of requirements relating to the publication on the Market Web Site of "the models, procedures, processes and methodologies used to calculate Loss Factors". To date no information of this type has been provided to the IMO or published, and the IMOPWG members agreed that the obligation was unnecessary and excessive. Based on the recommendations made by the IMOPWG, the IMO has removed these specific requirements from the Procedure and instead included the following:

- the existing obligation on Network Operators to have in place internal procedures and business processes for calculating Loss Factors (but limited to Network Operators who are actually required to provide Loss Factors to the IMO);
- the existing obligation on a Network Operator to sufficiently document its models, procedures, processes and methodologies used to calculate Loss Factors to allow for these to be reviewed should the Loss Factor calculations become subject to an IMO audit;
- provisions to allow the IMO to review the effectiveness of a Network Operator's processes for calculating Loss Factors in meeting the Wholesale Market Objectives;
- a requirement for a Network Operator to obtain approval from the IMO before it makes a material change to its internal processes, models or software tools used to calculate Loss Factors, and to provide to the IMO any requested information or test evidence relating to the change; and
- a requirement for a Network Operator to assist the IMO, if requested, in responding to a query raised by or on behalf of a Rule Participant about the processes used by the Network Operator to calculate Loss Factors.

A further update to the Procedure to reflect the outcomes of the November 2012 meeting was provided to IMOPWG members on 25 February 2013 for out of session comment. The revised Procedure also included the following updates:

- changes to allow the IMO to publish Transmission and Distribution Loss Factors provided by a Network Operator as they are received, rather than waiting for all Network Operators to have provided their Transmission and Distribution Loss Factors; and
- specification of different "Analysis Periods" for Transmission and Distribution Loss Factors, to reflect current practice and the inherent delays in obtaining historical consumption data for basic metered connection points.

No comments were received by the IMO on the further amendments.

Since the distribution of the Procedure for out of session comment, Western Power has requested a change to the Analysis Period used in the annual calculation of Transmission Loss Factors. Currently a 12 month period ending in March is used for the calculations. Western Power proposed that a 12 month period ending in February (i.e. one month earlier) be used, as this would allow Western Power to better align its internal processes for pricing and Loss Factor calculation and hence improve efficiency. Western Power considered that the change would have no significant effect on the modelling outcomes, as the stress of the most recent summer on the network and peak generation scenarios would still be captured. The IMO has included the additional amendment in the proposed amended Procedure.

Given the substantive restructuring and redrafting of this Procedure the IMO has not shown its proposed changes in tracked changes, but rather presented a final version of the Procedure. However, for the benefit of IMOPWG members any additional amendments to the version of the Procedure distributed to the IMOPWG on 25 February 2013 have been shown as tracked changes.

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 **5:00 pm on Tuesday, 16 April 2013**.

The IMO prefers to receive submissions by email to market.development@imowa.com.au using the submission form available on the following webpage:
<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, Development & Capacity
PO Box 7096
Cloisters Square, Perth, WA 6850
Fax: (08) 9254 4399

2. Provide the wording of the amended 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 Procedure with the relevant provisions in the:

- Market Rules (as proposed to be amended by RC_2012_07);
- Electricity Industry Act; and
- Regulations.

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

The IMO considers that the amended Procedure will not only be consistent with the Wholesale Market Objectives but will better achieve Wholesale Market Objective (a).

The IMO considers that the proposed amendments will support a more accurate allocation of system losses, by refining the calculation of the Notional Wholesale Meter's Distribution Loss Factor.

The amendments will also reduce unnecessary demands on Network Operators, for example by removing the requirement to determine individual Loss Factors for each small Entry Point and by replacing the current excessive requirements relating to the provision of documentation with a less onerous and more appropriately targeted requirement.

As such the IMO considers that the proposed amendments promote the economically efficient production and supply of electricity in the South West interconnected system.
