
Wholesale Electricity Market Pre Market Rule Change Discussion Paper

Submitted by

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Urgency:	3 - High
Change Proposal title:	Calculation of MCAP
Market Rule(s) affected:	6.14.2 and 6.14.4

Introduction

This Pre Market Rule Change Discussion Paper can be posted, faxed or emailed to:

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The discussion paper should explain how it will enable the Market Rules to better contribute to the achievement of the wholesale electricity market objectives. The objectives of the market 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 the proposed Market Rule Change

1) Describe the concern with the existing Market Rules that is to be addressed by the proposed Market Rule change:

Verve Energy has the obligation to follow the load in the WEM and, unlike IPPs, cannot specify pay-as-bid prices for energy scheduled to balance the market. Whenever Verve Energy deviates from its net contract position it is exposed to an effective “spot price” of MCAP, which may not reflect the true cost of the energy being despatched.

MCAP is determined by the STEM auction and only recalculated if the Relevant Quantity for the Trading Interval is not between 95% and 105% of the Scheduled System Load for that Trading Interval. As even small percentage fluctuations in the Relevant Quantity can affect the type of Verve Energy plant either despatched or backed off by System Management, it is important that what would be considered the competitive market cost of this generation is accurately reflected by always recalculating MCAP based on the Relevant Quantity. The cumulative effect of any failure to accurately reflect the cost of this generation may, over time, have a significant detrimental financial impact for some Market Participants while inappropriately rewarding others.

Significant fluctuations in the value of the Relevant Quantity are caused when Market Generators other than Verve Energy deviate from their Resource Plans. Such deviations should be reflected in the Relevant Quantity in order to arrive at a market competitive MCAP calculated against the Aggregate MCAP Price Curve.

Verve Energy proposes that MCAP should always be recalculated each day and that the calculation of the Relevant Quantity should be amended to reflect deviations by Market Generators from their Resource Plans. This will enable all Market Participants to receive or pay more accurate (higher or lower) prices for balancing energy.

Therefore the Market Rules should be amended as proposed below.

2) Explain the reason for the degree of urgency:

Verve Energy proposes that this change be processed using the Fast Track Process, described in section 2.6 of the Wholesale Electricity Market Rules, on the basis that it satisfies the criteria in section 2.5.9(b) of the Rules.

Section 2.5.9 states:

The IMO may subject a Rule Change Proposal to the Fast Track Rule Change

Process if, in its opinion, the Rule Change Proposal:

- (a) is of a minor or procedural nature; or*
- (b) is required to correct a manifest error; or*
- (c) is urgently required and is essential for the safe, effective and reliable operation of the market or the SWIS.*

Verve Energy considers the current possibility that MCAP may be widely divergent from the actual cost of providing balancing energy to be a manifest error in the Market Rules.

3) Provide any proposed specific changes to particular Rules (for clarity, please use the current wording of the Rules and place a ~~strike through~~ where words are deleted and underline words added)

6.14.2. The value of MCAP for a Trading Interval is calculated as follows:

- (a) If the STEM Auction was suspended for the Trading Interval under clause 6.10.1, and the process described in clause 6.9 cannot subsequently be completed by the time MCAP must be published under clause 6.14.1, the IMO must determine MCAP for the Trading Interval to be the value of MCAP for the equivalent Trading Interval:
 - i. if the IMO is determining MCAP for a Business Day, MCAP will be the value for the most recent Trading Day in the past which is a Business Day and commenced on the same day of the week;
 - ii. if the IMO is determining MCAP for a day which is not a Business Day, MCAP will be the value for the most recent Trading Day in the past which is not a Business Day.
- (b) If the STEM Auction was not suspended for the Trading Interval under clause 6.10.1, or was suspended but the process described in clause 6.9 can subsequently be completed for the purposes of this clause by the time MCAP must be published under clause 6.14.1, ~~then:~~
 - i. ~~If any of the following circumstances apply, then MCAP must be calculated in accordance with clause 6.14.3:~~
 - 1. ~~[Blank]~~
 - 2. ~~the Relevant Quantity for the Trading Interval is not between 95% and 105% of the Scheduled System Load for that Trading Interval.~~
 - 3. ~~[Blank]~~
 - 4. ~~[Blank]~~
 - ii. ~~If paragraph (i) does not apply then MCAP equals the STEM~~

~~Clearing Price for that Trading Interval.~~

6.14.3. Where MCAP is to be calculated in accordance with this clause under clause 6.14.2(b)(i):

- (a) subject to clause 6.9.4 the IMO must determine MCAP Price Curves for each Market Generator for the relevant Trading Interval in accordance with Appendix 6 using the valid STEM Submissions and Bilateral Submissions relating to that Trading Interval;
- (b) the IMO must determine an Aggregate MCAP Price Curve for each Trading Interval from the MCAP Price Curves determined in accordance with paragraph (a) where this Aggregate MCAP Price Curve:
 - i. describes the quantity included in the MCAP Price Curves for all Market Generators at every price between, and including, the Minimum STEM Price and the Alternative Maximum STEM Price; and
 - ii. passes through the point indicating zero supply at the Minimum STEM Price.
- (c) the IMO will determine MCAP as:
 - i. the Alternative Maximum STEM Price, where the Relevant Quantity determined according to clause 6.14.4 exceeds the total quantity in the Aggregate MCAP Price Curve; and otherwise
 - ii. the lowest price applying for the Relevant Quantity determined according to clause 6.14.4 on the Aggregate MCAP Price Curve.

6.14.4. For the purposes of clauses ~~6.14.2~~ and 6.14.3:

- (a) the “Operational System Load Estimate” for a Trading Interval is the estimate that the IMO receives from System Management of the total Loss Factor adjusted MWh consumption supplied via the SWIS during that Trading Interval. This estimate equals the total loss adjusted generator sent out energy as estimated from generator operational meter data and the use of state estimator systems;
- (b) the “Resource Plan Load” for a Trading Interval is total consumption as specified in applicable Resource Plans relating to that Trading Interval, including for Interruptible Loads, Curtailable Loads, Dispatchable Loads and Non-Dispatchable Loads; and
- (c) the “Scheduled System Load” for a Trading Interval is the sum of:
 - i. the sum over all Resource Plans for that Trading Interval of the total Loss Factor adjusted generation scheduled in each Resource Plan;
 - ii. the sum over all Resource Plans of the shortfall quantity for that Trading Interval as described in clause 6.11.1(e); and

- iii. the Net Contract Position of the Electricity Generation Corporation for that Trading Interval.
- (d) the “Relevant Quantity” equals:
- i. the Operational System Load Estimate for the Trading Interval; plus
 - ii. IMO’s estimate of the total MWh demand curtailed during that Trading Interval (if any); minus ~~plus~~
 - iii. the IMO’s estimate of the amount by which energy provided by Market Generators other than the Electricity Generation Corporation ~~falls short of~~ deviates from the relevant Resource Plan quantities. This estimate equals:
 - 1. the Operational System Load Estimate for the Trading Interval; minus
 - 2. the total Loss Factor adjusted generator sent out energy of the Electricity Generation Corporation based on SCADA data for the Trading Interval; minus
 - 3. the sum over all Resource Plan Submissions of the total Loss Factor adjusted sent out energy included in each Resource Plan for the Trading Interval; minus
 - 4. the sum over all Resource Plan Submissions of the absolute value of each shortfall included in accordance with clause 6.11.1(e) for the Trading Interval

4) Describe how the proposed Market Rule change would allow the Market Rules to better address the Wholesale Market Objectives:

This proposed Rule Change supports the following Market Objectives:

- (b) to minimise the long-term cost of electricity supplied to customers from the South West interconnected system;

Adoption of the proposed Rule Change will enable generators and retailers which are buying or selling in balancing to receive or pay more accurate and market reflective prices for balancing energy.

5) Provide any identifiable costs and benefits of the change:

Benefits:

- More accurate and market reflective prices for balancing energy, leading to a more efficient market.

Costs:

- This change will require minor changes to the IMO's WEMS
- This change may require minor changes to System Management's system(s)