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Reduced Frequency of the Review of the Energy Price Limits and the Maximum Reserve Capacity Price.
(RC_2014_05)
Standard Rule Change Process

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1. The Rule Change Proposal, Process and Timeline

On 2 December 2014, the then Independent Market Operator (IMO) submitted a Rule Change Proposal titled “Reduced Frequency of the Review of the Energy Price Limits and the Maximum Reserve Capacity Price” (RC_2014_05). This Rule Change Proposal sought to:

- x move the reviews of the Energy Price Limits (EPLs) and Maximum Reserve Capacity Price (MRCP) from annually to five-yearly;
- x index the EPLs and the MRCP between the five-yearly reviews; and
- x make a number of related administrative and structural changes.

This proposal was processed using the Standard Rule Change Process, described in section 2.7 of the WEM Rules.

The timeframe for the Draft Rule Change Report was extended under clause 2.5.10 of the WEM Rules on multiple occasions. The history of this proposal is summarised below:

- x the IMO submitted the proposal on 2 December 2014;
- x the IMO issued se

2. The Coordinator's Decision

The Coordinator's final decision is to reject the Rule Change Proposal.

2.1 Reasons for the Coordinator's Decision

The Coordinator has made its final decision to reject Rule Change Proposal RC_2014_05 because the issues raised in this proposal were addressed by the MPM Strategy Review, the RCM Review and Rule Change Proposal RC_2019_05.

x



Issue 3: Introduction of an in-period review to account for significant changes

The IMO proposed to introduce in-period reviews, as required, to mitigate the risk that the limits no longer represent the input parameters. The in-period reviews were proposed only for the input parameters, and not for the methodology.

Issue 4: Removal of Market Procedure for the Maximum Reserve Capacity Price

The IMO proposed to remove the obligation for the IMO to have a Market Procedure that specifies the methodology for the review of the MRCP and to instead require that the methodology be specified in the relevant reports. This was proposed to streamline the review process that otherwise required the IMO to annually update the Market Procedure, if changes were required.

Issue 5: Introduction of price indexation

The IMO proposed to introduce quarterly indexation of the EPLs and annual indexation of the MRCP using the Producer Price Index (PPI). The proposed indexation was to be restricted to years where a five-yearly review of the methodology or in-period review was not undertaken. The IMO considered that the price indexation was necessary to ensure that prices change in accordance with regular price movements and to account for inflation and exchange rates associated with costs in the sector.

Issue 6: Clarifying the calculation of the Energy Price Limits

The IMO proposed changes to clarify the calculation of EPLs and MRCP, including how each EPL is indexed, distinguishing between the quarterly (clause 6.20.3) and monthly (clause 6.20.4) indexation, and to review the reference to the oil price that was used for indexation.

Issue 7: Remove the explicit ability for the IMO to undertake further consultation

The IMO proposed to delete clause 6.20.9A on the basis that it was redundant. The IMO argued that the WEM Rules did not preclude the IMO from undertaking further consultation, so clause 6.20.9A was not required.

Issue 8: Other minor amendments

The IMO proposed a number of minor typographic changes to the WEM Rules.

3.2 The IMO's I

4. Consultation

Section 4 of this Final Rule Change Report provides summaries of:

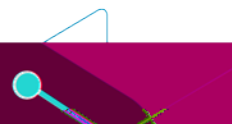
- x the consultation that has been conducted on the Rule Change Proposal with the Market Advisory Committee (MAC) and the Coordinator's response to the views of the MAC; and
- x submissions made in the first and second submission periods and the Coordinator's response to the issues.



5. The Coordinator's Draft Decision

The Coordinator's draft analysis of the Rule Change Proposal and its draft assessment of the proposal against clauses 2.4.2 and 2.4.3 of the WEM Rules is presented in section 6 of the Draft Rule Change Report, which is available on the Coordinator's website.

The Coordinator's draft decision was to reject the Rule Change Proposal. The reasons for the Coordinator's draft decision are set out in section 2.1 of the Draft Rule Change Report.



Stakeholders suggested that these proposals did not ensure sufficient regulatory oversight of the intra-period review process and did not provide adequate certainty to Market Participants.

Changes have already been made to the WEM Rules so that EPLs reviews are conducted at least once in every three years, and BRCP reviews at least once in every five years. As the WEM Rules allow for reviews to be conducted more frequently, the Coordinator is of the view that the WEM Rules do not need to provide for in-period reviews of the BRCP.

In addition, the MPM Strategy Review:

- x introduced the ability for Rule Participants to request that the ERA brings forward the next review of the EPLs. This change commenced on 17 April 2023; and
- x included the Market Price Limits and the BRCP in the Coordinator's three-yearly review of the effectiveness of the WEM. This change will commence at a time specified by the Minister in a notice published in the Gazette.

As a result, the Coordinator rejects the proposed amendments under Issue 3.

Issue 4: Removal of M

- x amending the oil price used to index the fuel cost component of the Alternative Maximum STEM Price to the Perth Net Ex Terminal Price (clauses 6.20.3 and 6.20.4); and
- x amending the formulae that the IMO must use to calculate the Maximum STEM Price and Alternative Maximum STEM Price and moving them to clause 6.20.5 (the IMO proposed to replace the calculations with a list of factors that the IMO must consider when calculating the EPLs, excluding a risk margin).

The Coordinator considers that the changes introduced by Wholesale Electricity Market Amendment (Tranche 6A Amendments) Rules 2023 adequately address the proposed amendments.

As a result, the Coordinator rejects the proposed amendments under Issue 6.

Issue 7: Remove the explicit ability for the IMO to undertake further consultation

RC_2014_05 proposed to delete clause 6.20.9A on the basis that it is redundant. Clause 6.20.9A was considered under RC_2019_05 and the related changes to the WEM Rules were commenced on 7 August 2020. The Coordinator considers that clause 6.20.9A provides clarity to Market Participants and is, therefore, not redundant.

As a result, the Coordinator rejects the proposed amendments under Issue 7.

Issue 8: Other minor amendments

RC_2014_05 proposed to fix a number of typographical errors in clauses 2.26.3, 4.16.6, 4.16.7 and 6.6.10 of the WEM Rules. However, these rules have been subject to multiple amendments since RC_2014_05 was proposed.

As a result, the Coordinator reject the proposed amendments under Issue 8.

6.2 Additional Amendments to the Proposed Amending Rules

The Coordinator's final decision is to reject the Rule Change Proposal and, therefore, did not propose to make any changes to the proposed Amending Rules following the first submission period.

6.3 Wholesale Market Objectives

The Coordinator considers that the MPM Strategy Review, the RCM Review and Rule Change Proposal RC_2019_05 addressed the issues in RC_2014_05, and considered the Wholesale Market Objectives.

6.4 Protected Provisions

The Coordinator's final decision is to reject the Rule Change Proposal, so this proposal will not impact any Protected Provisions.

6.5 Civil Penalty Provisions

The Rule Change Proposal proposed to amend clause 7A.2.9, which is a Category C civil penalty provision. The Coordinator final decision is to reject the Rule Change Proposal, so this proposal will not impact any civil penalty provisions.

6.6 Reviewable Decisions

The Coordinator final decision is to reject the Rule Change Proposal, so this proposal will not impact any Reviewable Decisions.

6.7 Cost and Practicality of Im 0 62.2 (i)-e.9 (c)-m.5 (8)-e.92()]nt9.9 (c)

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