
Agenda item 5(a) v

Wholesale Electricity Market Rule Change Proposal Discussion Paper

Change Proposal No: PRC_2009_22
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Change requested by

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Urgency:	Standard Rule Change Process
Change Proposal title:	The use of tolerance levels by System Management
Market Rule(s) affected:	2.13.6, new 2.13.6A, 2.13.8, 7.10.5, new 7.10.5B , new 7.10.5C, Chapter 11

Introduction

Market Rule 2.5.1 of the Wholesale Electricity Market Rules provides that any person (including the IMO) may make a Rule Change Proposal by completing a Rule Change Proposal Form that must be submitted to the Independent Market Operator.

This Change Proposal Discussion Paper can be posted, faxed or emailed to:

Independent Market Operator
Attn: Manager Market Administration
PO Box 7096
Cloisters Square, Perth, WA 6850

Fax: (08) 9254 4339
Email: marketadmin@imowa.com.au

The Independent Market Operator will assess the proposal and, within 5 Business Days of receiving this Rule Change Proposal form, will notify you whether the Rule Change Proposal will be further progressed.

In order for the proposal to be progressed, all fields below must be completed and the change proposal must 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:

Background

A Rule Participant must comply with the provisions of the Market Rules referred to in clause 2.13.9. Market Rule 2.13.6 requires System Management to monitor and report alleged breaches by a Rule Participant of the Market Rules to the IMO. Since the market began, System Management has, with the knowledge of Rule Participants, implemented a tolerance range before reporting alleged breaches to the IMO. The proposed Market Rule changes will clarify System Management's reporting obligation by expressly allowing for the use of a tolerance range.

This rule change proposal involves changes to clauses 2.13 and 7.10, which will provide guidance for, and increase the transparency of, activities of System Management.

Market Rule 2.13

On a strict literal interpretation of Market Rule 2.13, System Management might be required to report to the IMO alleged breaches even if they are trivial, insignificant or completely immaterial. This interpretation is overly legalistic and does not take into account the realities associated with operating the SWIS in a secure and reliable manner on a day to day basis, nor any other settlement penalties (forced outage refunds, upwards and downwards deviation administered price, for example) which might otherwise be applicable.

The monitoring and reporting obligations that a strict literal interpretation would produce are substantial and System Management does not believe that it is the intention of the Market Rules or the Wholesale Electricity Market objectives to produce this outcome.

Since the market began, System Management has, with the knowledge of the Rule Participants, implemented a tolerance range before reporting the alleged breaches as follows:

- (a) if a Rule Participant's compliance is outside the tolerance range threshold then System Management must report the alleged breach to the IMO; and

- (b) if a Rule Participant's compliance is within the tolerance range then System Management may (or may not) report the alleged breach to the IMO.

The proposed Market Rule changes will clarify System Management's reporting obligation by expressly allowing for the use of a tolerance range.

Market Rule 7.10

The proposed Market Rule changes will clarify System Management's reporting obligation in respect of Market Rule 7.10.1 by expressly allowing System Management to consider whether a Rule Participant is generating at a level above or below its Resource Plan or Dispatch Instruction when using a tolerance range.

Since the market began, System Management has, with the knowledge of Rule Participants, implemented a tolerance range in respect of alleged breaches of Market Rule 7.10.1 as follows:

- (a) if the alleged breach is within the tolerance range then System Management may (or may not) report the alleged breach to the IMO;
- (b) if the alleged breach is outside the tolerance range and it relates to the Rule Participant generating at a level above its Resource Plan or Dispatch Instruction, then System Management must report the alleged breach to the IMO; and
- (c) if the alleged breach is outside the tolerance range and it relates to the Rule Participant generating at a level below its Resource Plan or Dispatch Instruction, and the Rule Participant has logged a Forced Outage then System Management may (or may not) report the alleged breach to the IMO.

Market Rule 7.10.5 requires System Management to warn a Rule Participant in certain circumstances when the Rule Participant is in alleged breach of Market Rule 7.10.1. Since the market began, System Management has, with the knowledge of the Rule Participants, only warned a Rule Participant of an alleged breach when the Rule Participant's compliance is outside the tolerance range threshold. This reflects the fact that a Resource Plan provides a required average MW value over a half hour – therefore “real-time” deviations are difficult to identify because the Resource Plan does not indicate the actual output of the Facility at any particular moment. However, a strict and literal reading of Market Rule 7.10.5 requires System Management to warn a Rule Participant even when the Rule Participant's alleged breach is within the tolerance range, which would impose a substantial monitoring and reporting obligations on System Management.

The proposed Market Rule changes will clarify System Management's obligations in respect of Market Rule 7.10.5 by expressly stating that System Management is not obliged to issue a warning to a Rule Participant if the Rule Participant's alleged breach is within the tolerance range.

Summary

The proposed Market Rule change will clarify System Management's reporting obligations by expressly allowing for the use of a tolerance range. Given the significant differences between facilities in the SWIS it is not proposed to incorporate tolerances themselves within the rule change; rather, the tolerance will be determined (and made transparent) by System Management in a similar fashion to the way System Management currently determines the content of the equipment list for the purposes of outage planning (refer clause 3.18.2 of the Market Rules).

It is submitted that this rule change will ensure consistency between the Market Rules and the long standing practices of System Management and will not have an adverse impact upon system security or reliability. In addition, the rule change will not affect settlement outcomes nor constrain the ability of the IMO to investigate behaviour which might not be reported to the IMO under the tolerance regime.

2. Explain the reason for the degree of urgency:

System Management submits that the above rule changes proceed under the standard rule change process.

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

Market Rule 2.13.6

(a) System Management must monitor Rule Participants' behaviour for compliance with the provisions of the Market Rules referred to in clause 2.13.9 and Market Procedures developed by System Management.

(b) Subject to clause 2.13.6A, System Management must report any alleged breaches of those provisions or Market Procedures to the IMO, in accordance with the Monitoring and Reporting Protocol.

New Market Rule 2.13.6A

(a) System Management is not required to report an alleged breach by a Rule Participant of the clauses of the Market Rules referred to in Market Rule 2.13.9 or the Power System Operation Procedures developed by System Management to the IMO if the extent of the alleged breach is within the Tolerance Range.

(b) Nothing in clause 2.13.6A(a) relieves:

- i. System Management from its obligation to monitor Rule Participants' behaviour pursuant to clause 2.13.6(a); or
- ii. Rule Participants' from the obligation to fully comply with the provisions of the Market Rules and Power System Operation Procedures (including where any breach may be within the Tolerance Range whether or not the alleged breach is reported by System Management).

(c) System Management may determine the Tolerance Range to apply to each Facility and for each relevant Market Rule or Power System Operation Procedures. The following will apply:

- i. System Management may review the Tolerance Range from time to time and may change the Tolerance Range to apply to any one or more Facilities from time to time;
 - ii. where the Tolerance Range relates to MW output, the Tolerance Range for a Facility must not exceed 50% of the Reserve Capacity for that Facility;
 - iii. System Management may determine the Tolerance Range on a Facility by Facility basis as determined by System Management as part of determining the Tolerance Range criteria;
 - iv. System Management may determine a different Tolerance Range for a Facility depending on one or more of the following factors:
 - 1. the time of the year;
 - 2. the time of the day;
 - 3. the Market Rule in question; and
 - 4. any other matter considered relevant by System Management for a Facility.
 - vi. System Management must review the Tolerance Range for a Facility at least yearly;
 - vii. System Management must publish the Tolerance Range for each Facility, including an effective date for the commencement of the Tolerance Range, at least 14 days prior to date from which change to the Tolerance Range becomes effective;
 - viii. in determining a Tolerance Range System Management may take into account such other considerations as it sees fit; and
 - ix Market Participants may request that System Management re-determine a Tolerance Range, by providing information indicating why the current determination should be varied.
- (d) System Management is not required to report an alleged breach if the breach is limited to occurring within a single Trading Interval.
- (e) Even if the extent of the alleged breach is outside the Tolerance Range, System Management is still not required to report to the IMO an alleged breach by a Rule Participant of clause 7.10.1 if both:
- i. the Rule Participant has notified System Management of a Forced Outage in accordance with clause 3.21.4 that is applicable to the period of the alleged breach; and
 - ii. the alleged breach relates to the Rule Participant generating at a level below its Resource Plan or the Dispatch Instruction applicable to the relevant Forced Outage period,
- provided that nothing in this clause will relieve System Management of its obligation to report to the IMO any other alleged breach by a Rule Participant of clause 7.10.1.

Market Rule 2.13.8

If System Management becomes aware of an alleged breach of the Market Rules referred to in clause 2.13.9 or Market Procedures developed by System Management as a result of its monitoring activities, then it must:

- (a) record the alleged breach of the Market Rules or Market Procedures; and
- (b) subject to clause 2.13.6A, notify the IMO of the alleged breach in accordance with clause 2.13.6 or, in the case of an alleged breach by the IMO, notify the person referred to in clause 2.13.1 in accordance with clause 2.13.5.

Market Rule 7.10.5

Subject to clause 7.10.5A, where System Management considers that a Market Participant has not complied with clause 7.10.1 in relation to any of its Registered Facilities in a manner that:

- (a) threatens Power System Security or Power System Reliability;
- (b) would require System Management to issue instructions to the Registered Facilities of the Electricity Generation Corporation or Registered Facilities covered by any Balancing Support Contract or Ancillary Service Contract; or
- (c) would require System Management to issue Dispatch Instructions to other Registered Facilities in accordance with clauses 7.6.3 or 7.6.4;

~~System Management must warn the Market Participant about the deviation and request an explanation for the deviation; and cessation of the behaviour within a time that System Management considers reasonable.~~
then clause 7.105B applies.

Market Rule 7.10.5B

If clause 7.10.5 applies, provided that the behaviour does not fall within the Tolerance Range, System Management must

- (a) warn the Market Participant about the deviation; and
- (b) request an explanation for the deviation; and
- (c) request cessation of the behaviour within a time that System Management considers reasonable.

Market Rule 7.10.5C

If clause 7.10.5B applies, it is deemed to apply for the entire Trading Interval.

Chapter 11

Tolerance Range: Has the meaning given in clause 2.13.6A.

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

The objectives of the market as set out in clause 1.2.1 of the Market Rules 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.*

System Management considers that economic efficiency will be promoted by ensuring that significant and unnecessary compliance costs are not imposed on System Management, Rule Participants and the IMO. Economic efficiency will also be promoted by providing certainty and transparency for Rule Participants as to the role of System Management in using Tolerance Ranges.

- (b) *to encourage competition among generators and retailers in the South West interconnected system, including by facilitating efficient entry of new competitors.*

A strict interpretation of the current provisions of the Market Rules will impose a significant and unnecessary compliance cost on Rule Participants which may discourage the entry of new competitors into the Market. The proposed rule change will ensure that unnecessary compliance costs are not incurred by Rule Participants which will ensure that potential new entrants do not see unjustified compliance costs as a potential barrier to entry.

- (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.*

System Management considers that the proposed changes do not impact on, and therefore are consistent with, the operation of objective (c) of the Market Objectives.

- (d) *to minimise the long-term cost of electricity supplied to customers from the South West interconnected system.*

A strict interpretation of the current provisions of the Market Rules will impose a significant and unnecessary compliance cost on System Management, Rule Participants and the IMO which may be passed on to consumers. The proposed change will ensure that significant and unnecessary administrative costs are not incurred by System Management, Rule Participants, and the IMO.

- (e) *to encourage the taking of measures to manage the amount of electricity used and when it is used.*

System Management considers that the proposed changes do not impact on, and therefore are consistent with, the operation of objective (e) of the Market Objectives.

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

Benefits:

1. The Market Rule change will reduce the administrative cost for System Management, Rule Participants and the IMO. A strict application of current Market Rule 2.13.6 would impose a significant and unnecessary compliance cost on System Management, Rule Participants and the IMO without improving the reliability or security of the SWIS.
2. The Market Rule change reflects the accepted monitoring practices that System Management has implement on a day to day basis since the inception of the market. The Market Rule change is required to reflect the realities of operating the SWIS on a day to day basis and avoid the need to increase the market administration costs.
3. The Market Rule change will increase transparency in relation to System Management determining a tolerance range and notifying the IMO of a change to a tolerance range.
4. The Market Rule change will remove a significant and unnecessary administrative cost which would be imposed by a strict literal interpretation, but will still require a Rule Participant to comply with the with the provisions of the Market Rules referred to in clause 2.13.9.

Costs:

No costs are anticipated to arise due to the changes.