
Agenda item 9b:
Wholesale Electricity Market
Concept Paper Proposal Form

Concept Proposal No: CP_2010_08
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Concept requested by

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Date submitted:	May 2010
Urgency:	2-medium
Concept proposal title:	Extension of Bilateral Submissions to Market Customers
Market Rule(s) affected:	Chapter 6 - Clauses 6.2, 6.2A, 6.7, 6.9

Introduction

The purpose of a Concept Paper is to foster analysis and discussion of complex issue(s) that can affect the Wholesale Electricity Market (**WEM**), the Market Rules and the Wholesale 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.

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

Independent Market Operator

Attn: Manager Market Development

PO Box 7096

Cloisters Square, Perth, WA 6850

Fax: (08) 9254 4339

Email: market.development@imowa.com.au

General Information about Concept Paper Proposals

On receipt of this Concept Paper Proposal the Independent Market Operator (IMO) will proceed following these steps:

1. Log the proposal and notify the proposer that it has been received;
2. Assess the concept and consult with the Market Advisory Committee (MAC) for prioritisation against other Rule Participant issues registered; and
3. Work cooperatively with the proposer to develop the full concept paper including:
 - assessment against the Market Objectives; and
 - undertaking a detailed cost benefit analysis related to the identified options.

Details of the proposed Concept Paper

1. Identify the issue(s) with the existing Market and/or its Market Rules that are to be addressed by the proposed concept paper (including any examples):

Purpose of Concept Paper

Section 6.2 of the Wholesale Electricity Market (WEM) Rules (Market Rules) allows a Market Generator to submit a Bilateral Submission for a Trading Day to the IMO between specified times. By exclusion, this clause section prevents a Market Participant registered only as a Market Customer from submitting Bilateral Submissions.

This Concept Paper proposes, given the current market design, practical reasons why Market Customers should be able to undertake Bilateral Submissions directly with the IMO.

Comments on the Current Supply Arrangements

A Market Participant wishing to secure and/or offer electricity supply in the WEM may participate through three market mechanisms; the bilateral market, the Short Term Energy Market (STEM) and/or the Balancing Market. The majority of electricity and capacity in the WEM is traded through bilateral contracts between Market Generators and Market Customers as it provides a mechanism to achieve price, volume and duration certainty between counterparties. To allow for the flexibility to respond to day ahead fluctuations in demand, the STEM provides a mechanism for participants to adjust its bilateral position for the respective trading day with limited price or volume certainty. Upon determination of a Market Participant's Net Contract Position (NCP) the balancing market then costs out any mismatches between a Markets Participants nominated and actual position on an ex-post basis based upon the supply curves submitted by Market Generators in the STEM process.

Given the WEM is designed with an emphasis for bilateral arrangements; this suggests a preference to arrange supply electricity off market. Under the current Market Rules, Market Customers may participate in the bilateral market only through a Market Generator as they are not permitted to make Bilateral Submissions.

If in the event a Market Customer wishes to enter into a supply arrangement or participate in a tender (for example to manage an over contracted position bilaterally) it would need to seek pre approval from a bilaterally contracted Market Generator. This arrangement raises concerns around the ability for a Market Customer to:

- self manage its risk;
- deal into the market in commercial confidence; and
- creates a potential barrier to competition within the bilateral market.

The Proposal

Under this proposal, a revision to the Market Rules is being sought to allow Market Customers to make Bilateral Submissions thereby efficiently manage energy trades without the required involvement of a third party generator. This proposal's intention is to remove, the restrictive nature in which a Market Customer may participate in offering supply into the bilateral market promoting greater price visibility and increased competition within the bilateral market.

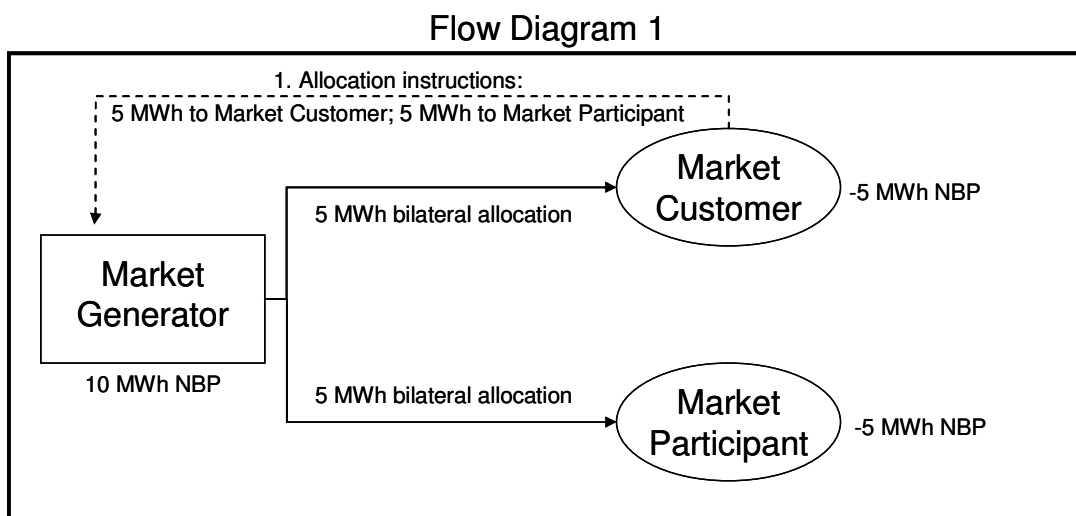
2. Outline the overall objective of the Proposal:

The objective of this Concept Paper is to engage the MAC and discuss the benefits of allowing Market Customers to make Bilateral Submissions. Allowing a Market Customer to directly trade bilaterally with another Market Participant removes the need to incorporate tripartite agreements with Market Generators and divulge potential commercial transactions to a third party.

More specifically, this Concept Paper is proposing to allow a Market Customer to make a Bilateral Submission, either as a Standing Bilateral Submission or on a day-ahead basis for the relevant Trading Interval. The intention is to redefine the way in which a Market Customer's Net Bilateral Position (NBP) is calculated by netting all bilateral energy nominated by Market Participants to the Market Customer minus any Bilateral Submissions made by the Market Customer.

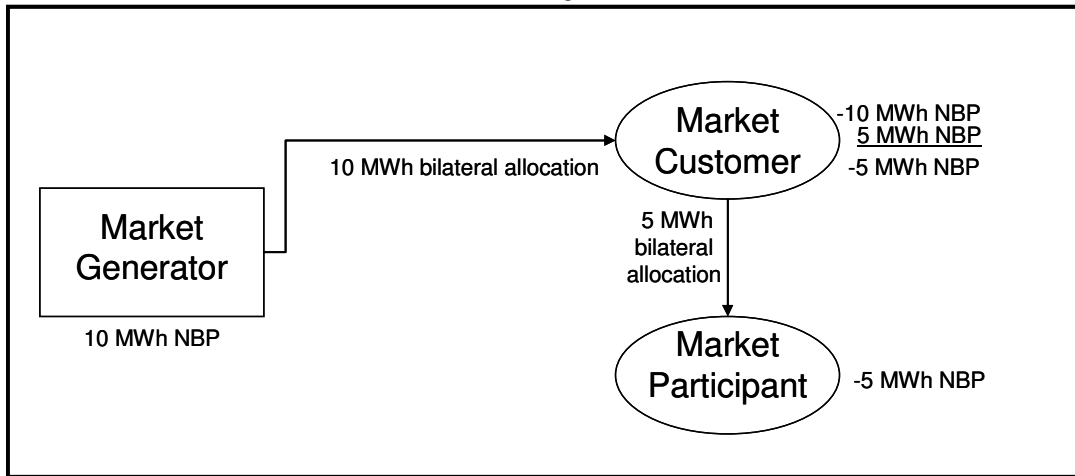
Example of Bilateral Submission Proposal

Presently, under the Market Rules, if a Market Customer wishes to re allocate its MWh from its supplying generator to another Market Participant it must provide the supporting Market Generator with such an instruction. Entering into such an arrangement requires the approval from the supporting Market Generator to allocate the MWh and its resources to make appropriate submissions as given in Flow Diagram 1.



It is proposed that a Market Customer would no longer require a Market Generator to nominate two supplies; one to its Market Customer and a temporary one to another Market Participant. Instead the Market Customer would simply re-direct part of its supplying Generator's Bilateral Submission as represented in Flow Diagram 2.

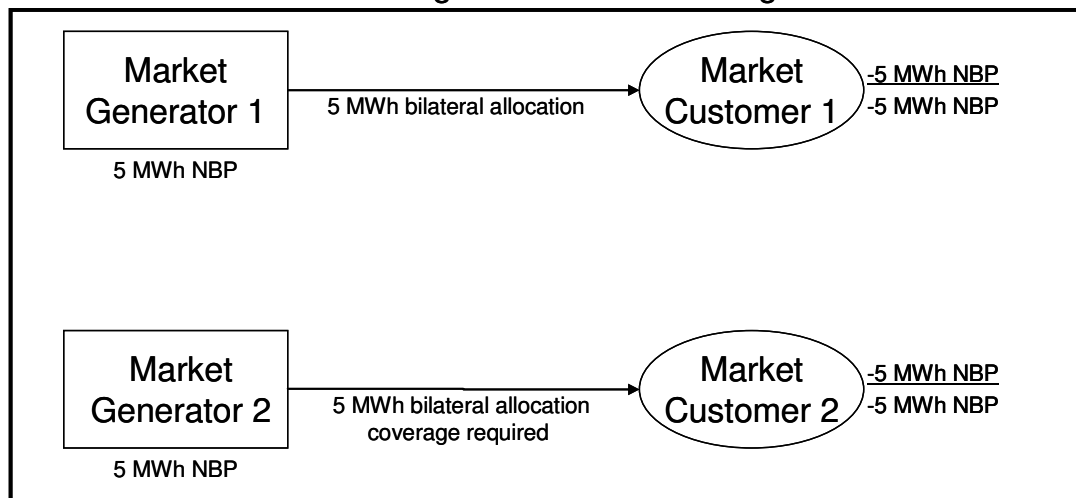
Flow Diagram 2



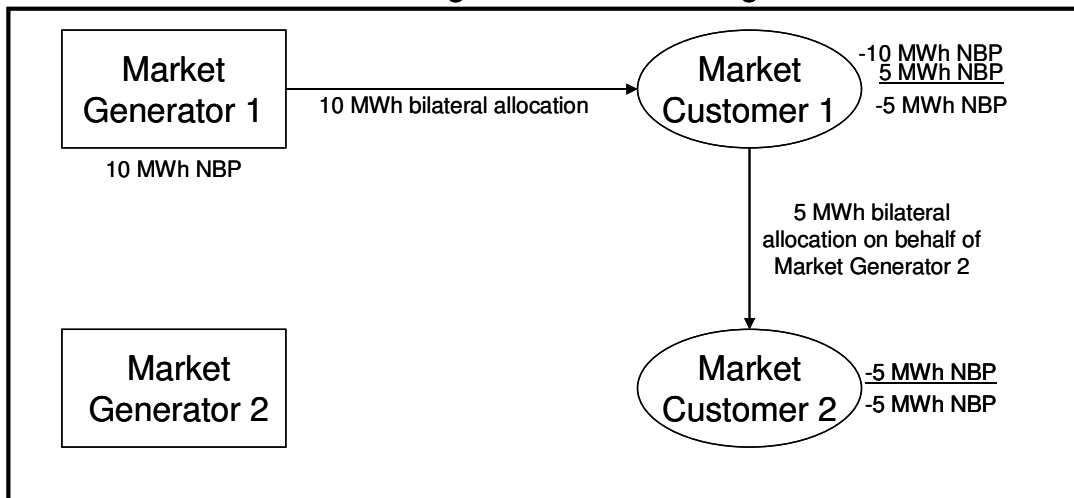
Bilateral Submission Worked Example

In this example, a Market Participant (in this case Market Generator 2) seeks bilateral coverage for an upcoming outage from the market. Flow Diagram 3 shows the nomination process if Market Generator 2 did not undertake the outage and Flow Diagram 4 shows the resulting transaction if the outage happened and Market Customer 1 re-directed supply to Market Customer 2.

Flow Diagram 3 – Before Outage



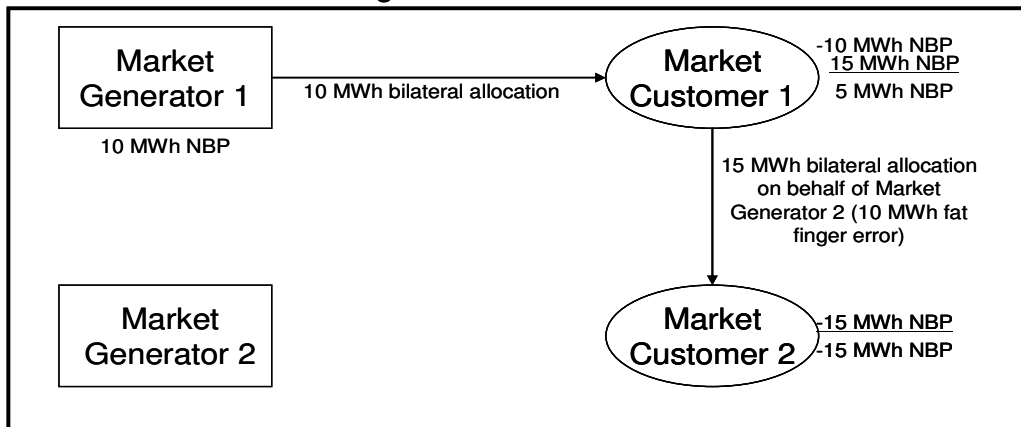
Flow Diagram 4 – With Outage



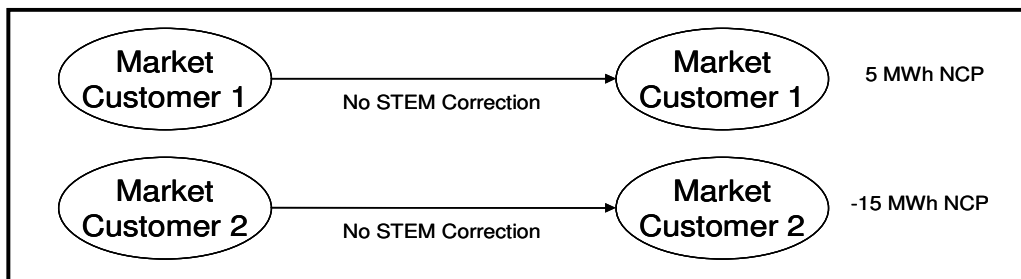
Worked Example with Nomination Errors

In the event that an error occurs in the allocation process the Market Rules should adequately deal to this within the existing STEM and Balancing Mechanism. If Market Customer 1 has incorrectly allocated an additional 10 MWh to Market Customer 2 both Market Participants will have the opportunity to correct the error within the STEM. If not corrected through the STEM, both Market Customers then are exposed to the balancing market for the difference between their NCP and actual demand. Given both are not Market Generators, there is no requirement for either to submit a Resource Plan.

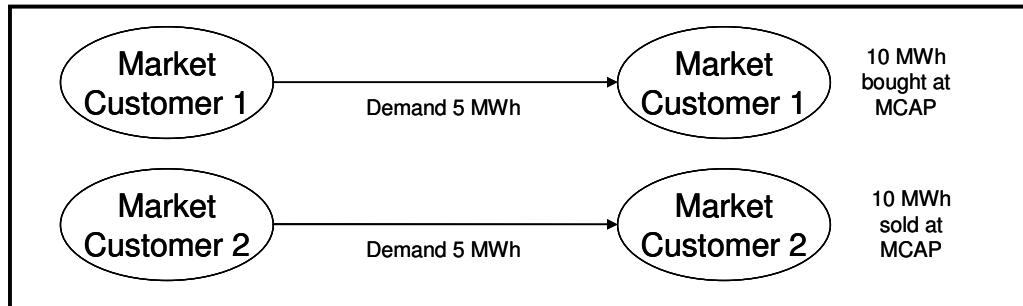
Flow Diagram 5 – Error in Nomination



STEM Transaction to Resolve Error



Balancing Transaction to Resolve Error



3. Identify any reasonably practicable options for achieving the objective:

Synergy has identified the following reasonably practicable options for achieving the objective set out in this Concept Paper:

Number of Bilateral Submission Windows

(a) This proposal is adopted upon the retention of a single bilateral window timeframe, that is Both Market Generators and Market Customers would be required to make their bilateral submissions by the close time. The appeal of retaining a single window is a lower cost impact to Market Participants as the existing market structure and systems are currently structured to support a single window approach.

(b) Alternately this proposal could work under an arrangement of incorporating a second Bilateral Submission window. This will be to allow for any re-allocation of bilateral nominations to occur in the event of an error.

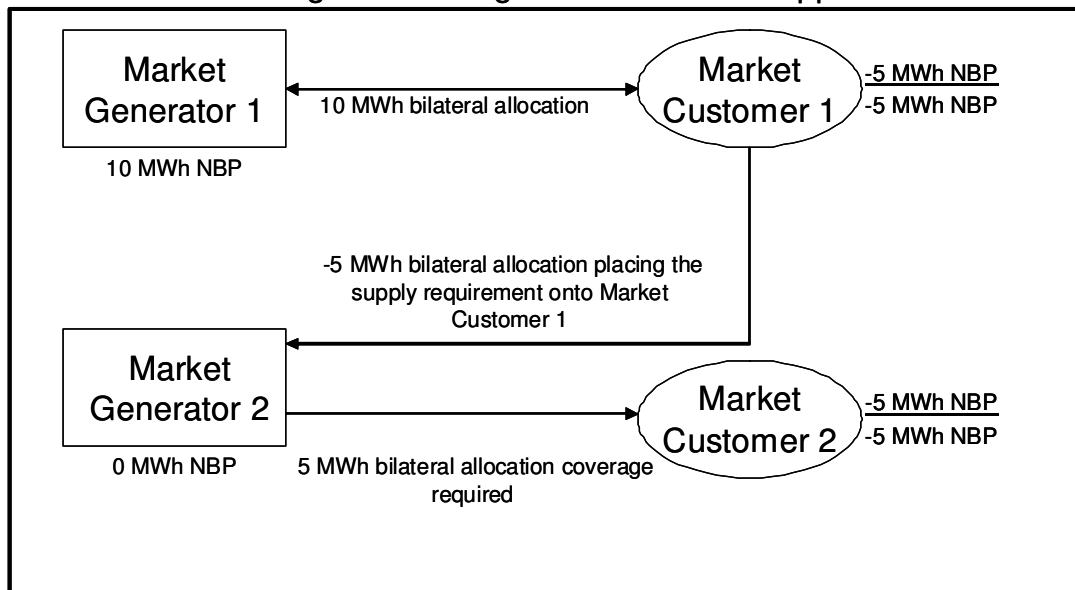
The appeal of retaining a single window is a lower cost impact to market participants as the existing market structure and systems are currently structured to support a single window approach. Furthermore, the existing bilateral process provides an opportunity for incorrect bilateral solutions to be corrected through the initial bilateral position report removing the requirement for a facility to correct such errors to be incorporated. If an error were to occur it is envisioned that settlement of such an error would then be by the OTC commercial arrangements entered into.

Alternative Submission Approaches

Negative Bilateral Approach

An alternate consideration would be to allow Market Generators to submit a “Negative” Bilateral Submission. While not explicitly covered in the Market Rules, the IMO systems do not currently allow for such a bilateral submission to be made. This approach does not require a Market Customer to undertake Bilateral Submissions; instead, it has Market Generator 2 passing on its liability for supply Market Customer 2 to Market Customer 1. Effectively Market Generator 2 nominates 5 MWh for Market Customer 2 and negative 5 MWh to Market Customer 1 making its NCP equal to zero. Market Customer 1 requests its supplying Generator (Market Generator 1) to nominate 5 MWh for its own supply plus 5 MWh to counter the negative value from Market Generator 2. Flow Diagram 6 shows the nomination interaction.

Flow Diagram 6 – Negative Nomination Approach



Registration Approach

The market also allows Market Customers to register themselves as a Market Generator even though it may have no generation capability. The registration a Market Participant as a Market Generator adds undue risk as the potential requirement would now exist for a non-generator to be required to submit a resource plan if a NCP were to be realised. As a result, the Market Customer (now registered as a Market Generator) could also face costs such as DDAP charges.

Synergy's preferred approach is to retain a single bilateral window; as such Synergy has prepared proposed Market Rule amendments to reflect this preference.

4. Proposed Market Rule Amendments:

Below is the proposed mark up to the existing Market Rules. Additional text is underlined and in red font. Deletions are indicated with a strike through.

6.2. Bilateral Submission Timetable and Process

6.2.1. A Market Generator Participant may submit Bilateral Submission data for a Trading Day to the IMO between:

- (a) 8:00 AM of the day seven days prior to the start of the Scheduling Day for the Trading Day; and
- (b) 8:50 AM on the Scheduling Day for the Trading Day.

6.2.2. Where the IMO holds a Standing Bilateral Submission for a Market ~~Generator~~ Participant as at the time specified in clause 6.2.1(a), where that Standing Bilateral Submission is applicable to the Trading Day to which clause 6.2.1 relates and where that Standing Bilateral Submission conforms to the requirements of clause 6.7 at that time, the IMO must make it the Bilateral Submission with respect to the Trading Day as at the time specified in clause 6.2.1(a).

- 6.2.2A. When the IMO receives Bilateral Submission data from a Market ~~Generator~~ Participant during the time interval described in clause 6.2.1, it must as soon as practical communicate to that Market ~~Generator~~ Participant whether or not the IMO accepts the data as conforming to the requirements of clause 6.7. Where the IMO accepts the data then the IMO must revise the Bilateral Submission to reflect that data.
- 6.2.3. By 8:30 AM on each Scheduling Day the IMO must communicate to each Market Participant a list of the Bilateral Submission quantities associated with that Market Participant for each Trading Interval on the Trading Day, including the party supplying, or being supplied by, the Market Participant., where this information must be based on Bilateral Submissions held by the IMO at a time not earlier than 8:20 AM on the Scheduling Day.
- 6.2.4. [Blank]
- 6.2.4A. [Blank]
- 6.2.4B. A Market ~~Generator~~ Participant may cancel Bilateral Submission data held by the IMO for any Trading Interval of the Trading Day during the time interval specified in clause 6.2.1.
- 6.2.4C. The IMO must confirm to the Market ~~Generator~~ Participant any cancellation of Bilateral Submission data made in accordance with clause 6.2.4B. Where such cancellation is made then the IMO must remove the relevant data from the Bilateral Submission.
- 6.2.5. [Blank]
- 6.2.6. [Blank]
- 6.2.7. By making or revising a Bilateral Submission a Market Participant acknowledges that it is acting with the permission of all affected Market Participants.
- 6.2.8. By 9:00 AM on each Scheduling Day the IMO must communicate to each Market Participant a list of the Bilateral Submission quantities associated with that Market Participant for each Trading Interval on the Trading Day, including the party supplying, or being supplied by, the Market Participant.

6.2A. Standing Bilateral Submission Timetable and Process

- 6.2A.1. A Market ~~Generator~~ Participant may submit Standing Bilateral Submission data to the IMO on any day between the times of:
- (a) 1:00 PM; and
 - (b) 3:50 PM,

where if accepted by the IMO the data will apply from the commencement of the subsequent Scheduling Day.

- 6.2A.2. When the IMO receives Standing Bilateral Submission data from a Market Generator Participant during the time interval described in clause 6.2A.1 it must as soon as practical communicate to that Market Generator Participant whether or not the IMO accepts the data as conforming to the requirements of clause 6.7. Where the IMO accepts the data then the IMO must revise the Standing Bilateral Submission to reflect that data.
- 6.2A.3. Standing Bilateral Submission data must be associated with a day of the week and when used as Bilateral Submission data will only apply to Trading Days commencing on that day of the week.
- 6.2A.4. A Market Generator Participant may cancel Standing Bilateral Submission data held by the IMO for any Trading Interval of the Trading Day during the time interval specified in clause 6.2A.1.
- 6.2A.5. The IMO must confirm to the Market Participant any cancellation of Standing Bilateral Submission data made in accordance with clause 6.2A.4. Where such cancellation is made then the IMO must remove the relevant data from the Standing Bilateral Submission.

6.7. Format of Bilateral Submission Data

- 6.7.1. A Market Generator Participant submitting Bilateral Submission data or Standing Bilateral Submission data must include in the submission:
- (a) the identity of the Market Generator Participant making the submission;
 - (b) in the case of:
 - i. Bilateral Submission data, the Trading Day to which the submission relates; and
 - ii. Standing Bilateral Submission data, the day of the week to which the submission relates, where data provided for a day of the week relates to the Trading Day commencing on that day;
 - (c) for each Trading Interval included in the submission by a Market Generator Participant:
 - i. the net quantity of energy to be sold by the submitting Market Generator Participant;
 - ii. the identity of each Market Participant purchasing the energy covered by the Bilateral Submission;
 - iii. the net quantity of energy sold to each Market Participant identified in (ii); and
 - iv. the sum of the quantities in (i) and (iii) must be zero.
- 6.7.2. All quantities specified in a Bilateral Submission or a Standing Bilateral Submission:
- (a) must be in units of MWh;

- (b) must equal or exceed 0 MWh for net supply (that is, sold) by the relevant Market Participant;
- (c) must be less than 0 MWh for net consumption (that is, purchased) from relevant Market Participant;
- (d) must be expressed to a precision of 0.001 MWh; and
- (e) must be Loss Factor adjusted.

6.7.3. A Market Generator must not specify quantities in a Bilateral Submission or a Standing Bilateral Submission exceed the quantity of energy that the Market Generator is contracted to supply to the relevant Market Customer.

6.7.4. A Market Customer must not significantly over-state its consumption as indicated by its Net Contract Position with a regularity that cannot be explained by a reasonable allowance for forecast uncertainty or the impact of Loss Factors.

6.9. The STEM Auction

6.9.1. The IMO must undertake the process described in this clause 6.9 for each Trading Interval in a Trading Day.

6.9.2. The Net Bilateral Position for Market Participant p in Trading Interval t is:

- (a) the sum of the quantities of energy referred to in clauses 6.7.1(c)(i) and 6.7.1(c)(iii) for the Market Generator Participant in all Bilateral Submissions for Trading Interval t; or
- (b) zero if no Bilateral Submissions for Trading Interval t refer to the Market Participant.