

1 November 2011

Our Ref: DM# 8795173

Mr Allan Dawson
CEO
Independent Market Operator

Dear Allan

RC_2011_10 - Competitive Balancing and Load Following Market

Thank you for the opportunity to provide a submission on RC_2011_10, the Independent Market Operator's proposal (the Proposal) to create two new trading markets providing a more flexible market structure and expanded commercial opportunities for participants.

System Management (SM) supports this work and is of the view that securing additional capability for both Balancing and Load Following Ancillary Services (LFAS) will be achieved most effectively using a market based approach. SM also notes that the Proposal would reduce existing system security issues associated with excessive generation overnight and resource plans with high increments. Further, SM supports the role of the Independent Market Operator (IMO) role in the administration of such a market.

Structure of SM's Submission

SM's submission on the Proposal collectively consists of this letter, which sets out some of SM's higher level concerns, together with SM's risk analysis of the Proposal in the form of a risk register at Attachment A and SM's rule change submission form for this Proposal at Attachment B (in the standard rule change submission form). SM has also included (at Attachment C) a listing of possible drafting amendments for the IMO's consideration

Timeframes

SM asserts that the IMO's approach has been to focus on the achievement of timeframes designed to achieve the earliest possible commencement date so as to achieve the benefits of the new market. SM is concerned to ensure that the quality of the policy development process is not compromised by an urgency to implement changes when that urgency is not supported by strong supporting analysis.

With the number of major structural changes made as part of the Proposal, the lack of annotations, or an accompanying explanatory memorandum, is a concern. Transparency is not assisted by the fact that there has been limited exposure to new and modified market procedures. The IMO has not declared how it intends to implement substantial and new responsibilities that it carries under the amended market design.

In its 2010 review of the effectiveness of the WEM¹, the ERA stated that the Independent Power Producers' (IPPs) want to be paid close to the applicable Maximum STEM price when instructed to increase generation, irrespective of the time of day (p81). The ERA also refers to discussions related in its 2009 report² (p24) with the IMO in which inflexibility of fuel supply and transport arrangements are discussed.

Application of Risk Management Policy

SM's approach to this submission has been to evaluate the draft rules presented as part of RC_2011_10 (the Proposal) to ascertain the extent to which they achieve the 'key focus areas' set out in the proposal. SM has also reviewed the information supporting the selection of these key focus areas and the manner of their implementation.

In doing so, SM has identified a range of emergent risks associated with the program. These risks are not related to SM's project to deliver the MEP outcomes. Instead, they are based on the assumption that both the IMO and SM systems are sufficiently complete and available for deployment to production during April 2012.

The risks identified are 'emergent' which, in this context, means that they will manifest when the redrafted WEM rules become effective. They are also uncontrolled, indicating that generally they may be mitigated or controlled to varying extents (either by changes to the rules or through management strategies that SM may put in place to control them) but currently are not.

Amendments to the Reserve Capacity Mechanism

SM notes that the decision to remove the generation component of Net Stem Shortfall is against the original recommendations of the Lantau group, which suggested changes should only be made in a coordinated fashion, considering their impact in the context of the whole RCM.

Further, the IMO's approach to mitigation of the risk created by that decision (e.g. use of the existing Reserve Capacity test regime³) is not supported by a robust analysis and was questioned and in some cases opposed by some members of the MAC, including SM.

SM's analysis of the Proposal indicates that there are some substantial risks associated with the IMO's implementation of the Proposal in its current form. These are presented in the risk register at Attachment A.

¹ ERA, 2011, 2010 Annual Wholesale Electricity Market Report to the Minister for Energy, p81

² ERA, 2010, 2009 Annual Wholesale Electricity Market Report to the Minister for Energy, p 24

³ CEO Recommendation Paper at:

http://www.imowa.com.au/f4768,1615212/20110708_-_Net_STEM_Shortfall_Removal.pdf

The Reserve Capacity Mechanism (RCM) exists only to support supply reliability. In this objective it has been important to SM's ability to manage the SWIS through extended critical threats to electricity supply. Amongst others, these include the extended interruption to gas supply that ensued after the incident on Varanus Island. If all capacity were traded through the market, in 2012/13 payments of \$186,000/MW would be made to the holders of 5996MW of capacity.

On this basis, valuation of the transfer to secure capacity next year is \$1.15 billion.

Given the purpose that this capacity serves, and its considerable value, it is reasonable to insist that decisions are documented in a manner that is robust, transparent and that allows accountability for each decision to be determined.

Access to Information

SM's primary responsibility is to maintain the security of the power system. Discharging that responsibility requires both timely access to information and freedom to act where necessary. SM is concerned that several aspects of the proposal appear to compromise its access to information, or to inappropriately restrict its ability to act on it.

SM submits that information essential to the real-time operation of the power system should in general either be provided directly to SM by the Market Participant concerned (or if it is provided via the IMO, provided at all times within a defined timeframe acceptable to SM), and that the use of that information to resolve real-time issues should not require iterative interactions with Market Participants.

The amended rules do not allow SM any discretion in dealing with a unit that repeatedly and materially deviates from its dispatch instructions over a short period of time.

SM submits that the proposal should be amended to allow SM to deviate from the Balancing Merit Order (BMO) in situations where the recent behaviour of a Market Participant reasonably leads SM to believe that they may not comply with future Dispatch Instructions (e.g. if the Market Participant has indicated in standing data that its time to respond to a dispatch instruction exceeds the time available from receipt and acceptance of that dispatch instruction).

Outcomes Based Style of Drafting

The approach to drafting taken in the Proposal makes it possible for the rule change process to create binding obligations on participants without fully considering the implications, costs or capability of participants to comply.

In this context, the absence of an independent arbiter on matters of process or administration creates an obligation on the IMO to support its decisions with high quality, robust and transparent analysis. SM questions whether the Proposal achieves the standards expected of a robust policy development process.

For example, the Proposal presents more than 200 pages of amendments without annotation or explanation. Considered together with the lack of supporting analysis for decisions that materially alter the functions of Governance Participants, and obligations on Rules Participants, SM is concerned at this limited transparency.

SM submits that, under such circumstances, consideration should be given to providing more time for the IMO to consolidate the firm basis for each of its decisions in relation to each Key Focus Area (including the rationale for their inclusion).

Further, the IMO should make available to the market an annotated version of the redrafted rules, setting out the purpose and/or logic behind the drafting approach taken to implementation of each Key Focus Area.

Conclusion

SM accepts that while the market mechanisms outlined in the Proposal will enhance the opportunities to overcome these constraints (and it is supported by SM on that basis), there also remains considerable uncertainty as to the extent to which they will achieve their objectives.

SM looks forward to an opportunity to address the issues raised in this submission as part of the formal rule change process.

Yours sincerely

A handwritten signature in cursive script, appearing to read "Phil Kelloway".

Phil Kelloway
Branch Manager, Planning and Market Operations
System Management

Attachment A – Risk Register

Rule # EIA Regs, Glossary

KF7: Generation component of net STEM shortfall

Reserve Capacity Mechanism fails

Description

The risk relates to the removal of an enforceable obligation. There is no link between the morning submissions (completion of STEM), and the first balancing merit order.

The proposed changes introduce the definition of Balancing Submission in the Glossary to the Rules. System Management believes this definition attempts to impose an obligation on participants to submit the correct values. However there is no penalty attached for not submitting the available capacity. In the absence of a settlement incentive or a civil penalty, SM questions how the IMO intends to enforce this obligation, which is central to the operation of the Reserve Capacity Mechanism.

Also, drafting appears extremely crude. The words "to the maximum" are unclear. System Management believes it should be a defined term - "Maximum Supply Capability" is the standard way of defining this concept.

SM queries whether, given the risk and the value at stake, the IMO has given appropriate thought to the removal of this clause.

Resolution

An enforceable obligation to offer capacity to the market is a central feature of the RCM and is essential

Extreme

- Perm disability, term. health issue
- >100000 off for 1d,
- 30,000 off for > 2d
- CBD off > 6h
- 15% CBDf off > 16h
- Accidental/Intentional breach of SLO,
- Regulatory Penalty,
- Royal Commission
- Significant S/Holder damage,
- sustained adverse State media
- \$15m < damage < \$42m

Rule # 7A.1.13

KF5: Flexibility/efficiency

IMO determines a timeline not consistent with SM's information requirements for secure power system operation.

Description

As the IMO is aware, System Management's primary responsibility is to maintain the security of the power system. Discharging that responsibility requires both timely access to information and freedom to act where necessary.

An operational risk arises when the IMO determines a timeframe that is not consistent with SM's requirements for real time operation of the Power System.

SM submits that the IMO seeks an authority that it is neither skilled, nor incentivised, to carry out in a manner that supports SM perform its functions under the *Elec. Industry Act (2004)*

Resolution

High

- Perm disability, term. health issue
- >100000 off for 1d,
- 30,000 off for > 2d
- CBD off > 6h
- 15% CBDf off > 16h
- Accidental/Intentional breach of SLO,
- Regulatory Penalty,
- Royal Commission
- Significant S/Holder damage,
- sustained adverse State media
- \$15m < damage < \$42m

Rule # 2.36.9

KF5:Flexibility/efficiency

Changes to Interface Spec are ultra-vires

Description

This rule appears to be attempting to circumvent the normal rule change process. SM encourages IMO to make use of the structure and governance arrangements in place for procedure changes if it wishes to amend the Interface Spec.

The IMO also does not appear to be aware that some of the systems that it might seek to influence are not controlled/owned by SM Markets and therefore cannot be drawn into this rule. Until it replaces all legacy systems, System Management cannot guarantee compliance with the rule as drafted.

SM is of the view that this is not a workable arrangement.

High

- LTI, Health Issue req. leave
- 100,000 off for 1d,
- 30,000 off >2d
- CBD off > 3h
- 15% CDB off > 8h
- Systemic/Intentional breach (not SLO)
- Adverse audit findings
- Sig. cust & peak body damage
- Adverse State media, not sustained
- \$1m < damage < \$15m

Resolution

Drafting amendments to remove IMO's ability to unilaterally set the interface specifications. (Another example of this is 7.10.7 (a) where reporting of breaches timeline and form is not defined).

Rule # 7.6.1B

KF5:Flexibility/efficiency

Non-Compliant dispatch process.

Description

Dispatch criteria must be unambiguous and capable of being expressed in a series of closed logic statements. Programming can 'take into account' ramp rate limits, but cannot make a value judgement on "Standing Data Limitations". Likewise 'reasonable' and 'best' are subjective statements that cannot be translated into the dispatch algorithm.

Where generators (ie not just specifically LFAS providers) take automatic action (eg governor response) following a significant system event they are providing a benefit to system stability and should be rewarded. However, SM can not issue a Dispatch instruction in advance or after the fact.

Extreme

- Perm disability, term. health issue
- >100000 off for 1d,
- 30,000 off for > 2d
- CBD off > 6h
- 15% CBDf off > 16h
- Accidental/Intentional breach of SLO,
- Regulatory Penalty,
- Royal Commission
- Significant S/Holder damage,
- sustained adverse State media
- \$15m < damage < \$42m

Resolution

Drafting amendments to remove ambiguity and ensure that dispatch criteria is capable of expression in closed logic statement. Also a new solution could be added to cover the situation where there is a large frequency deviation and SM would like to issue (ex-post) DIs to participants who move automatically to counter frequency movement.

Rule # 7.7.3(d)

KF8: System Management's authority

Extreme

Perm disability, term. health issue
>100000 off for 1d,
30,000 off for > 2d
CBD off > 6h
15% CBDf off > 16h
Accidental/intentional breach of SLO,
Regulatory Penalty,
Royal Commission
Significant S/Holder damage,
sustained adverse State media
\$15m < damage < \$42m

SM can't dispatch SG's on islanded systems

Description

On occasion, SM will direct an islanded generator to look after frequency control. The Min MW instructions provides for a payment stream to that MP in settlements. Deletion of this part 7.7.3(d)ii, removes the payment stream and is therefore unfair.

SM recognises the sensitivity on this issue but in the absence of a practical alternative is unable to accept this amendment. At a high level, the process is relatively straightforward, System Management could document its application and the guidelines in a PSOP.

Resolution

Add 'an agreed level of output' to 7.7.3(d) to allow for non specific target MW output. (e.g. frequency keeping generator in islanded situation)

Rule # 7A.1.5 7A.1.8(a)

KF8: System Management's authority

Extreme

Perm disability, term. health issue
>100000 off for 1d,
30,000 off for > 2d
CBD off > 6h
15% CBDf off > 16h
Accidental/intentional breach of SLO,
Regulatory Penalty,
Royal Commission
Significant S/Holder damage,
sustained adverse State media
\$15m < damage < \$42m

IMO sets inappropriate tech. and comms standards

Description

SM, IMO and ERA have all identified the need for SM to develop an automated dispatch solution for the MEP Balancing amendments to be implemented. This solution will be central to SM's ability to perform its System Operator function and must control the functional/ interface specs for that asset.

Requirements and responsibilities of Balancing Generators, including minimum technical capabilities, will be clearly communicated with IPP's and documented in a PSOP. However, Balancing Generators will be excluded if they

1. have not received final approvals of their arrangement from SM; or
2. are consistently unable to fulfil their obligations to the Balancing market.

Resolution

Drafting amendments to clause 7A.1.6A to include not only creating and amending the Balancing Facility Requirements but also suspending them for particular participants. SM notes that IMO and SM are currently in discussions regarding a potential resolution of this issue

Rule # 10.2

KF8: System Management's authority

IMO withholds information

Description

SM supports benefits of simplified arrangements and increased transparency. The IMO undertook to progress the Sapere recommendations through a pre-rule change paper but never did so, these changes have never been discussed/ agreed by MAC. In situations such as those which existed for the period of gas supply disruption following the Varanus Island explosion. Major supply outages were only averted because of the visibility that SOC had of fuel reserves. Disrupting this function while the system is in a high risk, or emergency state would severely curtail SOC effectiveness in returning the system to normal operating state.

High

Perm disability, term. health issue
>100000 off for 1d,
30,000 off for > 2d
CBD off > 6h
15% CBDf off > 16h
Accidental/intentional breach of SLO,
Regulatory Penalty,
Royal Commission
Significant S/Holder damage,
sustained adverse State media
\$15m < damage < \$42m

Resolution

Reinstate the two classes of information, dispatch restricted and SM restricted

Rule # 2.36.10 (f)

KF5: Flexibility/efficiency

SM breaches 2.36.10(f) (IMS Interface Document)

Description

The discretion sought by the IMO in this amendment would not be required if the rule change process retained the profile that it currently has. This rule appears to require systems be built to an amended spec, before that spec and the associated business process have been determined.

SM submits that this amendment is neither prudent nor cost effective. No guidance or governance over the circumstances in which the IMO would exercise this discretion. Shared systems are likely to exist well into AR3, neither the IMO nor SM has the ability to dictate how these systems should be configured.

Resolution

Remove clauses from proposed amendments. The current rule change process provides a responsible governance arrangement around system changes that result from rule changes

High

Perm disability, term. health issue
>100000 off for 1d,
30,000 off for > 2d
CBD off > 6h
15% CBDf off > 16h
Accidental/intentional breach of SLO,
Regulatory Penalty,
Royal Commission
Significant S/Holder damage,
sustained adverse State media
\$15m < damage < \$42m

Rule # 2.10.17	IMO avoids decision on PSOP change proposal
KF5:Flexibility/efficiency	Description IMO has not provided any information supporting its additional discretion in this regard. SM cannot see any material benefits to the amendment as proposed.
Administrative convenience is not a substitute for good process.	
High	
LTI, Health Issue req. leave 100,000 off for 1d, 30,000 off >2d CBD off > 3h 15% CDB off > 8h Systemic/Intentional breach (not SLO) Adverse audit findings Sig. cust & peak body damage Adverse State media, not sustained \$1m < damage < \$15m	Resolution IMO commit to processing procedure change proposals in a timely manner, and in the order in which they are submitted unless there is a valid reason to do otherwise. Increased focus and stronger governance should be applied to additional powers and expanded roles that IMO is seeking.

Rule # 7A.3.6	SM cannot calculate the SOI, EOI quantities
KF1:Increasing IPP Participation in Balancing	Description 1. If the phrase 'needed for balancing' refers to all balancing facilities then it should be excluded for clarity. If the phrase refers to some other matter than this needs to be defined.
	2. In relation to older facilities that do not have SCADA visibility clause 7A.3.6(a) should be amended to '(a) the SOI Quantity and the EOI Quantity for each Balancing Facility that is visible to the System Management SCADA'
High	
Medical Treatment >10000 off for 4h, 3000 off > 1d CBD off > 3h 15% CDB off > 8h Accidental/Intentional breach (not SLO) Adverse audit (minor work) One-off adverse state media \$100k < damage < \$1m	Resolution remove ambiguity in drafting

SYSTEM MANAGEMENT - RISK REGISTER
RC_2011_10 - Comp. Bal and LFAS

Rule # 7.6.2AA(b)

KF1: Increasing IPP Participation in Balancing

Previous day's BMO is not compatible with real time conditions

Description

MR 7.6.2AA contemplates circumstances where the relevant Balancing Merit Order may not be available to the IMO. It provides that the Balancing Merit Order may be in specified circumstances "the most recent Forecast BMO provided for the same Trading Interval for the previous day" (MR 7.6.2AA(d)). In these circumstances the Balancing Merit Order may be out of date and therefore the fairly rigid scheme in MR 7.6.1B and 7.6.1C will not be appropriate. Based on history of market system availability issues, it is almost certain that an interruption in data flow will occur within the first year of the new market.

The most recent BMO available is likely to be closer in terms of accuracy

Extreme

- LTI, Health Issue req. leave
- 100,000 off for 1d,
- 30,000 off >2d
- CBD off > 3h
- 15% CDB off > 8h
- Systemic/Intentional breach (not SLO)
- Adverse audit findings
- Sig. cust & peak body damage
- Adverse State media, not sustained
- \$1m < damage < \$15m

Resolution

Drafting amendments to allow System Management to use most recent BMO

Rule # 3.10.1

KF4: LFAS Market

SM unable to manage forecast risk in LFAS q's

Description

System Management will need additional LFAS under some circumstances (e.g. bad weather coming in; plant commissioning). It is unclear whether the proposed amendments provide for this.

High

- LTI, Health Issue req. leave
- 100,000 off for 1d,
- 30,000 off >2d
- CBD off > 3h
- 15% CDB off > 8h
- Systemic/Intentional breach (not SLO)
- Adverse audit findings
- Sig. cust & peak body damage
- Adverse State media, not sustained
- \$1m < damage < \$15m

Resolution

Drafting amendments to clearly establish the heads of power for System Management to increase the LFAS requirement when commissioning as per the commissioning PSOP and for forecasting in accordance with the ancillary services PSOP

SYSTEM MANAGEMENT - RISK REGISTER
RC_2011_10 - Comp. Bal and LFAS

Rule # 7B.3.9

KF4:LFAS Market

meaning of SM causing an external constraint

Description

The proposed amendment refers to System Management being the cause of an External Constraint. An External Constraint is defined in the Glossary as "...an event impacting the operation of the whole of the SWIS or any significant part of it". It is unclear as to how System Management could be the cause of an External Constraint. In the circumstances contemplated by clause 7B.3.9 does the current drafting limit the ability to use the Verve balancing portfolio in high risk and unusual operating circumstances?

High

Medical Treatment
 >10000 off for 4h,
 3000 off > 1d
 CBD off > 3h
 15% CDB off > 8h
 Accidental/intentional breach (not SLO)
 Adverse audit (minor work)
 One-off adverse state media
 \$100k < damage < \$1m

Resolution

Drafting amendments to remove ambiguity as to when System Management may do this

Rule # 7B.2.18 & 7B.2.19

KF4:LFAS Market

Short term LFAS shortfalls

Description

The proposed amendment requires LFAS facilities to only advise the IMO if they are unable to meet requirements. The requirement then for the IMO to pass on this information "as soon as practicable" is not adequate for information needed for real-time management of the power system.

The drafting is inconsistent with the IMO's design brief (http://www.imowa.com.au/f4768,1615220/20110804_-_LFAS_design.pdf) which states "at some time after LFAS Gate Closure the facility experienced a reduction in their ability to provide their LFAS Enablement Band (either partially or wholly), it would be the LFAS providers responsibility to inform SM (if the failure occurred during the 6 hour Selection Horizon)." (p4)

High

Perm disability, term. health issue
 >100000 off for 1d,
 30,000 off for > 2d
 CBD off > 6h
 15% CBDf off > 16h
 Accidental/intentional breach of SLO,
 Regulatory Penalty,
 Royal Commission
 Significant S/Holder damage,
 sustained adverse State media
 \$15m < damage < \$42m

Resolution

For clause 7B.2.18 - Drafting amendments for participants to advise System Management directly For clause 7B.2.19 - replace 'as soon as practicable' with a definitive timeframe

SYSTEM MANAGEMENT - RISK REGISTER
RC_2011_10 - Comp. Bal and LFAS

IMO prevents System Management from specifying minimum bid quantity

Rule # 7B.3.6
KF4:LFAS Market

Description

The proposed rule as drafted may result in the scheduling of too many units to provide load following. If this occurs interaction of their control systems (dead bands) might mean System Management does not get the aggregate response needed for the safe and secure operation of the power system.

Medium

Medical Treatment
 >10000 off for 4h,
 3000 off > 1d
 CBD off > 3h
 15% CDB off > 8h
 Accidental/Intentional breach (not SLO)
 Adverse audit (minor work)
 One-off adverse state media
 \$100k < damage < \$1m

Resolution

Drafting amendments to include a clause similar to 7B.3.6 added that puts a limit on the total number of units that can be used to meet the load following requirement (e.g. a maximum of 4 load following units at any one time)

Rule # 7A.3.14

KF2:Consistency between the balancing price and dispatch

IMO does not use most recent load forecast information

Description

An obligation on IMO to use the most recent forecast of RDQ in its calculation of forecast is essential to ensure that price signals sent to market appropriately best reflect operating conditions. Inappropriate price signals won't support balancing generators decision making in relation to appropriate/ timely start up arrangements.

Medium

LTI,Health Issue req. leave
 100,000 off for 1d,
 30,000 off >2d
 CBD off > 3h
 15% CDB off > 8h
 Systemic/Intentional breach (not SLO)
 Adverse audit findings
 Sig. cust & peak body damage
 Adverse State media, not sustained
 \$1m < damage < \$15m

Resolution

SYSTEM MANAGEMENT - RISK REGISTER
RC_2011_10 - Comp. Bal and LFAS

System Management must account for fuel decs in its Dispatch engine.

Rule # 7.5.7 Glossary
KF6:Surveillance and Compliance

Description

Transparency - It is unclear as to what System Management is required to do with fuel declarations. Fuel declarations change the standing data to be used in terms of ramp rate and max capacity. It is unclear as to whether System Management uses these quantities from the BMO/Ramp Rates or from the standing data when a fuel declaration is made (30 minutes prior to the start of the interval). All clauses in regard to fuel declarations are no longer required as these are made to the IMO. If it is the capacity and rates given in the BMO then this must be removed to avoid ambiguity

Medium

- Medical Treatment
- >10000 off for 4h,
- 3000 off > 1d
- CBD off > 3h
- 15% CDB off > 8h
- Accidental/Intentional breach (not SLO)
- Adverse audit (minor work)
- One-off adverse state media
- \$100k < damage < \$1m

Resolution

SM understands that IMO has agreed to remove these clauses. (BenC following discussions with IMO - System Management has no obligation in relation to fuel declarations.

Rule # 7B.3.5

KF6:Surveillance and Compliance

LFAS information not received prior to commencement of trading day

Description

2.3 The IMO must provide to System Management certain information set out in MR 7B.3.5(d). However there does not appear to be a timeframe for compliance. We need it in time to be able to ensure that all LFAS providers are running and ready to be switched into appropriate AGC mode.

High

- Medical Treatment
- >10000 off for 4h,
- 3000 off > 1d
- CBD off > 3h
- 15% CDB off > 8h
- Accidental/Intentional breach (not SLO)
- Adverse audit (minor work)
- One-off adverse state media
- \$100k < damage < \$1m

Resolution

Drafting amendments to require information to be provided to System Management within the timeframes set out in 7B3.5(e) (i.e. IMO required to publish LFAS order between one and half to two hours before start of the first Trading Interval)

SYSTEM MANAGEMENT - RISK REGISTER
RC_2011_10 - Comp. Bal and LFAS

SM is provided with comm/decom times too late

Rule # 6.11.1

KF8: System Management's authority

Description

Removing clause 6.11.1 (b)ii. will reduce System Management's ability to manage power system security. Some generating units have start-up times in excess of 16 hours and hence the loss of a few hours' notice of intended synchronisation is potentially significant

High

Perm disability, term. health issue
 >100000 off for 1d,
 30,000 off for > 2d
 CBD off > 6h
 15% CBDf off > 16h
 Accidental/Intentional breach of SLO,
 Regulatory Penalty,
 Royal Commission
 Significant S/Holder damage,
 sustained adverse State media
 \$15m < damage < \$42m

Resolution

Reinstate clause 6.11.1 (b)ii.

Rule # 7.3.2. 7A.2.10

KF8: System Management's authority

Plant trips after gate closure and has provided advice under 7.3.2 but not 7A.2.10.

Description

Clauses 7.3.1 and 7A.2.10 both affect the currency of the data System Management considers in real time despatch and there is ambiguity between the two clauses. System Management needs to be able to take account of forced outage information when issuing dispatch instructions potentially in a shorter timeframe than is required to update a balancing submission. A situation where plant is declared to have reduced availability prior to formulation of final BMO must be able to be accounted for by SM.

(System Management would identify if we are using that power when we issue the dispatch instruction and would immediately follow it with a second dispatch instruction with which the participant could comply).

High

LTI, Health Issue req. leave
 100,000 off for 1d,
 30,000 off >2d
 CBD off > 3h
 15% CDB off > 8h
 Systemic/Intentional breach (not SLO)
 Adverse audit findings
 Sig. cust & peak body damage
 Adverse State media, not sustained
 \$1m < damage < \$15m

Resolution

Drafting required to remove ambiguity between 7.3.2 and 7A.2.10. System Management requires the power to immediately deem a generator non-compliant with a dispatch instruction if they have advised us ahead of time that they will be unable to comply.

SYSTEM MANAGEMENT - RISK REGISTER
RC_2011_10 - Comp. Bal and LFAS

Rule # 7A4.2

KF1:Increasing IPP Participation in Balancing

SM does not meet 5 day requirement.

Description

The decision itself will be reasonably straightforward, but the potential is that if SM (for any reason) misses this deadline, the potential is for a major part of our Fall Back AS capabilities may be removed from the VE portfolio. The rules are not clear about how this situation would be resolved, but if it wasn't it could be a major threat to PSS. SM will need to manage this risk carefully in any case. but recommends that it would be strongly advisable for the default response to reject rather than approve VE's

Medium

- LTJ,Health Issue req. leave
- 100,000 off for 1d,
- 30,000 off >2d
- CBD off > 3h
- 15% CDB off > 8h
- Systemic/Intentional breach (not SLO)
- Adverse audit findings
- Sig. cust & peak body damage
- Adverse State media, not sustained
- \$1m < damage < \$15m

Resolution

convert the default response to a rejection rather than approval.

Rule # 7.10.5

SM prevented from taking corrective action where a Generator is operating outside of tolerance.

Description

Section 7.10.5 requires that where a Market Participant's Facility is operating outside its Tolerance Range, System Management must warn the Participant of the deviation and seek an explanation.

System Management believes this requirement is unworkable as in many cases, operation by a Participant outside the Tolerance Range will be the result of an incident resolution of which will be time-critical. In real time operations, it is not the explanation or the reason for the non-compliant operation that is important, it is the resolution of the issue

System Management believes that the provision of reasonable tolerances provides generators the latitude to manage themselves without compliance being unduly onerous. SM could consider sending an automated communication to generators who are approaching the tolerance limit if that will provide comfort to Market Participants.

Resolution

Amendments to allow SM to take corrective action as soon as a participant moves outside of tolerance

High

- LTJ,Health Issue req. leave
- 100,000 off for 1d,
- 30,000 off >2d
- CBD off > 3h
- 15% CDB off > 8h
- Systemic/Intentional breach (not SLO)
- Adverse audit findings
- Sig. cust & peak body damage
- Adverse State media, not sustained
- \$1m < damage < \$15m

Attachment B – Submission Form

Wholesale Electricity Market

Rule Change Proposal Submission Form

RC_2011_10 Competitive Balancing and Load Following Market

Submitted by

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Submission

- 1. Please provide your views on the proposal, including any objections or suggested revisions.**

As stated in its covering letter to this submission, System Management (SM) supports the introduction of a Competitive Balancing Market and Load Following Ancillary Service Market. It has supported the discussion and debate through the development of RC_2011_10 (the Proposal) over the past year in meetings of the RDIWG and MAC.

The ability to physically dispatch generators in accordance with security and reliability constraints and a price based merit order will lead to a more efficient outcome when compared to the current rule based order.

SM is committed to complying with all of its obligations under the *Electricity Industry Act (2004)*, which include but are not limited, to its obligations under Part 9 of that Act.

Application of Western Power Corporations Risk Management Policy

SM's approach to this submission has been to evaluate the draft rules presented as part of the Proposal to ascertain the extent to which these achieve the Key Focus Areas set out in the proposal.

As a result it has identified a number of risks, which if they were to remain unresolved may impact on its ability to comply with all of its significant legislative obligations.

Notably, there remains a significant level of uncertainty as to the manner in which the rules changes will be implemented primarily because, in many areas the specific details of what is to be required will be in the market procedures. These procedures that are produced by both IMO and SM have not yet been provided to participants.

Despite this uncertainty, SM has undertaken its assessment based on its expectation of the impact that may occur should the Proposal be implemented in its current form.

The assessment approach is based on an application of Western Power's Risk Management Framework, which in turn is based on Australian (and International) Standard AS/NZS ISO 31000:2009 Risk management – Principles and guidelines.

Key focus 1: Increasing IPP Participation in Balancing

SM confirms that, in its view, the Proposal allows formation of a price based order and removes the fuel and ownership based order given in the current Market Rule 7.6.

The proposed rule changes do not provide for sufficient compliance obligations for participants to offer their full capacity to the market and as a result pose a considerable risk to the continued secure and reliable operation of the power system.

The Rules, including the Rules Change Proposal, do not allow SM any discretion in dealing with a unit that repeatedly and materially deviates from its dispatch instructions over a short period of time. SM would like the Rules Change Proposal amended to allow them to deviate from the BMO in situations where the recent behaviour of the Market Participant reasonably leads SM to believe that they may not comply with future Dispatch Instructions.

Section 7.10.5 requires that where a Market Participant's Facility is operating outside its Tolerance Range, SM must warn the Participant of the deviation, seek an explanation. SM believes this requirement is unworkable as in many cases, operation by a Participant outside the Tolerance Range as a result of an incident resolution will be time-critical.

SM believes that the provision of reasonable tolerances provides generators the latitude to manage themselves without compliance being unduly onerous. SM could consider sending an automated communication to generators who are approaching the tolerance limit if that will provide comfort to Market Participants, but would also like the Rules amended to allow SM to take corrective action immediately if a generator moves out of tolerance.

Key focus 2: Consistency between the balancing price and dispatch

SM notes the true marginal cost of dispatch can only be achieved by determining the price of the marginal facility, which in many instances is a Non-balancing Facility (e.g. a Demand Side Program).

SM submits that important pricing signals are distorted through this omission.

Key focus 3: The role of DDAP and UDAP

SM submits that the deletion of DDAP and UDAP remove a market based price signal intended to incentivise dispatch compliance.

As a result, the importance of the civil penalty relating to clause 7.10.1 concerning compliance with dispatch instructions is elevated.

Limited information is available on the detail of the new compliance obligations presumably to be written into market procedures.

Key Focus 4: LFAS Market

SM believes the proposed rule changes sufficiently allow an alternate spot based LFAS procurement mechanism to the contracting mechanism currently allowed under the market rules.

SM notes that the Verve Portfolio is the Default LFAS Provider and as such may require many of its facilities to remain in the Portfolio to secure future provision of LFAS service in the absence of long-term contracts.

SM submits that the requirement for participants in the LFAS market to comply with SM's reasonable requirements in terms of technical capability and AGC control has been omitted from the Proposal and represents a substantial risk to the continued secure and reliable operation of the Power System. SM requires heads of power in the Market Rules to enable it to enforce these reasonable requirements.

Section 7B.2.18 covers the situation of LFAS facilities that are unable to meet the requirements for which they are scheduled. The Rules currently require the Participant to advise the IMO, who is then obligated to pass the information on to SM "as soon as practicable".

SM would like the Rule amended so that the Participant is required to advise SM directly, or that the IMO is required to pass the information on within a defined timeframe at all times and in all situations.

Key Focus 5: Flexibility/Efficiency

SM believes the proposed rule changes allow increased flexibility to respond to changes in the prevailing system conditions.

SM notes that the Proposal substantially increases the opportunities to game. To the extent that the IMO's as yet undetermined compliance processes are not successful in identifying and preventing such behaviour, SM submits that heightened risk to the continued secure and reliable operation of the power system will result.

Key Focus 6: Surveillance And Compliance

SM notes that in the area of LFAS, there is no price cap safety net and the financial impacts on the market are totally reliant on the civil penalty regime to ensure that prices offered are a "reasonable expectation of the incremental cost".

Because Market Procedures are still being developed, significant uncertainty exists in relation to the manner in which the IMO intends to implement its substantial new responsibilities under the Proposal.

SM submits that, in addition to this, the enforceability of participants obligations, for example in relation to Key Focus 7, is also questionable.

SM submits, that the market appears to be placing confidence in the IMO's implementation of a range of measures that are yet to be defined and whose effectiveness has not yet been assessed.

Key Focus 7: Generation Component Of Net Stem Shortfall

SM believes the proposed rule changes have removed these components.

SM has reviewed the information in the rule change proposal and finds that it references the need for participants to make capacity available if required, and notes that the current arrangement "overstates the impact and/ or distort Market Participant decisions" (p9). What is impacted has not been identified. The decisions that will be distorted and the extent to which market efficiency is compromised by those distortions has also not been identified.

The Rule Change proposal states that should the facility be "considered by the IMO to be at risk of not meeting its physical obligations in relation to the WEM, then the IMO may request it to undertake a test". The proposal does not identify how the IMO might come to such a view. However, the real time nature of such problems implies that SM should retain some discretion in terms of requiring facilities to undertake a test should it believe it necessary.

SM submits that information contained within the rule change proposal does not adequately define the issue, nor does it constitute a robust treatment of the nature and impacts of the issue. Alternatives for addressing the issue, their implementation and any potential impacts on the achievement by the RCM of its objectives are also not addressed.

SM turned to the CEO Recommendation Paper published on the IMO's. It finds that it focuses only on the practical implications of two alternatives for 'ad-hoc' compliance testing.

SM reviewed the minutes of the two meetings referred to in that paper and, apart from a commitment by the IMO to progress a pre-rule change discussion paper, did not find any substantive discussion supporting the decision that had been inferred from RDIWG deliberations. A number of issues raised by SM at RDIWG and MAC in respect of triggers for testing of facilities and mechanisms for initiation of such tests were not considered further.

The IMO has not provided any guidance as to how this decision has been implemented in the redrafted rules. Interested parties are left to attempt to infer this for themselves from more than 200 pages of redrafted rules.

SM has attempted to do so and on the basis of that review submits that, the rules as drafted remove 1 of 2 existing checks in place in the original market design by amending the formula set out in clause 4.26.2.

SM also submits that it can find no evidence in the redrafted rules that "compliance monitoring" of the type referred to in the design decisions would lead to an enforceable obligation to ensure that such capacity is available to the balancing market if required. This brings into question the basis of the statement in IMOs Rule Change Proposal Key focus 8 that "All capacity will continue to be available to System Management for dispatch via the Balancing Merit Order"

SM did not believe that this was the intention of the IMO, nor of the decision made by the MAC and RDIWG. SM also notes that the decision to include this component within the MEP program in the first instance runs counter to the original advice received from the Lantau group, when its report was presented to the RDIWG.

SM submits that the RC_2011_10 does not communicate the manner in which it has implemented an important decision to remove a fundamental design aspect of the RCM in a manner that is sufficiently transparent.

SM notes the elevation of the importance of the Reserve Capacity compliance regime in clause 4.25. SM is concerned that the proposed requirements associated with the "Operational Test" as discussed in the RDIWG have not been included as requirements in the Proposed Market Rule Change for the Reserve Capacity test regime.

Key Focus Area 8: System Management's Authority

The commencement of the WEM in September 2006 was the final stage of a reform process that fundamentally restructured the Electricity Supply Industry. It created the Electricity Industry Act 2004 (EIA), under which Part 9 enables the WEM rules and confers powers on the IMO.

Importantly, other parts of the EIA confer broadly ranging functions and powers on both Western Power (as Network Owner) and SM (the System Operator of the SWIS). Commencing in 2001, the Office of Energy led the reform process in close consultation with stakeholders drawn from across industry and Government.

As a very broad guide, and excluding the cost of Ancillary Services, approximately 17% of SM (hereon SM Markets (SMM)) is financially segregated and funded by the WEM market fee mechanism. The remainder of SM performs functions set out under Parts other than Part 9 of the EIA and are funded through access charges raised under the ENAC.

A key objective of the Office of Energy in undertaking these reforms was to ensure that the Western Power board, responsible for both Western Power and the market funded SMM was not compromised by incompatible or conflicting legislation.

SM submits that, in only being concerned with the operation of Part 9 of the EIA, the IMO is not incentivised to ensure that its directions under that part are not in conflict with other aspects of the Electricity Supply Industry regulatory structure. SM shares the view expressed by the ERA in its 2010 review of the effectiveness of the WEM that "the challenges facing the market ... are too substantive to be left to the IMO alone".

SM has concerns that several aspects of the Rules Change Proposal have the potential either to compromise its access to information or to inappropriately restrict its ability to act on it. SM submits

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that information essential to the real-time operation of the power system should in general either be provided directly to SM by the Market Participant concerned (or if it is provided via the IMO, provided within a defined timeframe acceptable to SM), and that the use of that information to resolve real-time issues should not require iterative interactions with Market Participants. These concerns can be readily resolved in the Rules Change Proposal by providing SM with heads of power for it to specify the types of information it reasonably needs to be communicated between it and participants and the details on timing and format of data required.

One example of this relates to the IMO's decision not to implement an "Operational Test", instead relying on the existing Reserve Capacity Testing regime. In doing so IMO has removed SM's discretion to require a facility to prove its operational capacity if SM believes that doing so is required. SM is concerned about the security implications of this.

Key Focus 9: Confidentiality Provisions

SM notes that when the results of the Sapere's study were presented to MAC in November 2010, the IMO undertook to prepare a pre-Rule Discussion Paper on Confidentiality. Instead, in including the amendments to Chapter 10, the IMO has chosen to bypass that commitment.

That issue aside, SM notes the proposed changes to Chapter 10 and the IMO's intention to '*rationalise the current confidentiality-related treatment of market information*'.

SM acknowledges the importance of the market, its participants and other stakeholders having access to relevant market related information for reasons of ensuring efficient market outcomes and market transparency.

However, SM is of the view that the proposed rule changes as drafted do not sufficiently provide for increased transparency. For instance disclosure is required for the Load Following offers or constrained on/off payments and quantities. However there is no equivalent transparency of Non-balancing facility offers.

SM also notes that the proposed changes provide the IMO with the sole discretion to determine the confidentiality status of market related information. Where information is primarily market related (e.g. price related information) this is appropriate.

As the IMO is aware, SM's primary responsibility is to maintain the security of the power system. Discharging that responsibility requires both timely access to information and freedom to act where necessary.

Where information is of a technical nature this raises significant issues for SM. SM is of the view the IMO is not the most suitable body and should not be the sole body to make an assessment of whether technical information should or should not be confidential.

Should key technical information (e.g. fuel supply and dispatch information) be deemed confidential by the IMO (and not disclosed to SM), this could limit SM's visibility of critical SWIS dispatch information and have serious consequences for the secure and reliable operation of the power system.

SM submits that the IMO has not delivered on its undertaking to facilitate discussion on an important aspect of the new market design. Instead, it has chosen to implement the recommendations of Sapere without subjecting those to the appropriate level of discussion within the MAC.

It is recommended that the proposed Chapter 10 changes be reconsidered.

Views on Non-Key Focus Area Changes

SM has identified some proposed rule changes, which do not conform to any of the stated objectives in the key focus areas. Specifically these are:

Proposed Rule Change 2.10.17 which allows the IMO to extend the deadline for the completion of Market Procedure Change Proposals. This proposed change may prevent SM from completing its necessary changes to SMs Market Procedures.

Proposed Rule Change 2.36.10 which allows the IMO to dictate the provisions and implementation date of the Interface Document Procedures. SM is of the view that it must be consulted on and agree to the format, form and manner in which it is to provide information to the IMO so that it can comply with the requirements in a timely and cost effective manner, without impacting system security.

Proposed Rule Change 7A.1.13 which allows the IMO to determine what is "as soon as reasonably practicable". The market requires more clarity on what the expected timeframes are to be.

Drafting Issues

SM has also compiled a list containing observations or drafting issues that require clarification or further amendment in the Proposal. A number of these issues relate to the transparency and efficiency of the market. These are detailed in Attachment C.

SM believes these points should be addressed in amendments to the Proposal.

Civil Penalty Provisions

SM has reviewed the proposed civil penalty changes in the Rule Change Proposal

It believes that a civil penalty must exist for market participants not making available capacity to the Balancing Market. Examination of the proposed penalties does not show that one exists.

It believes the penalty regarding clause 7B.2.13 should refer instead to clause 7B.2.14.

Protected Provisions

SM believes that the protected provision of clause 10.2.1 is not appropriate as it relates to the IMO having sole discretion on confidential information.

SM believes that the protected provision of clauses 2.10.17, 2.10.18 & 2.10.19 is not appropriate as it relates to the IMO dictating the deadline for a Procedure change.

2. Please provide an assessment whether the change will better facilitate the achievement of the Market Objectives.

The proposed rule changes have utilised an outcomes based model, thereby elevating the importance of the Market and Power System Operating Procedures. It is essential that these be drafted and understood to be able to perform an assessment of the market.

It is noted that workshops to progress these procedures have been rescheduled until after the close of submissions.

SM is unable to provide an assessment of whether the proposed rule changes better facilitate the achievement of the market objectives.

3. Please indicate if the proposed change will have any implications for your organisation (for example changes to your IT or business systems) and any costs involved in implementing these changes.

The introduction of a competitive balancing and load following market will have a fundamental impact on the manner in which SM's performs its function as System Operator for the SWIS.

Prior to the commencement of the WEM in 2006, the Office of Energy required SM to retain, as much as possible, its existing systems and processes. The rationale for this was related to both cost effectiveness and risk management.

Ironically, in implementing this Proposal, SM will be in a similar position to the IMO at the time of WEM commencement. Many of the same issues that arose in commissioning the IMO's market systems will arise in the initial stages of the new market arrangements.

As a result of the Office of Energy's original approach, SM's suite of business systems and processes are integrated across the organisation, but have only been integrated to a limited extent within SM's market responsibilities.

This has been sufficient for the current day ahead balancing arrangements, however it has been generally difficult for SM to consider changes to those arrangements.

SM has an ongoing program of works to maintain and incrementally enhance its Information Systems to address these issues. However, given the fundamental changes proposed in the MEP, these incremental system improvements although lowering the effort required will fall well short of meeting the requirements of the near real time balancing and load following market.

In order to perform planning, scheduling and dispatch in the new market SM has identified the following least cost scope of works to implement a capability development program and deliver a new IT based business solution:

1. Modify existing or source new forecasting systems (e.g. wind, load, unscheduled generation) and existing databases;

2. Develop planning and scheduling capabilities, procedures and tool, which can also undertake the Verve Portfolio scheduling service;
3. Develop real time dispatch capabilities, procedures and tools to support a competitive market for Balancing and Load Following ancillary services;
4. Develop the interfaces (operational procedures and communication mechanisms) between SM and the IMO for the transfer of market information and between SM and Generators for dispatch information;
5. Integrate the various components as a collaborative suite to provide a coherent business solution;
6. Purchase and assemble the necessary infrastructure of hardware and network components to support the solution;
7. Create and compile the necessary documentation, procedures and training materials to support the system implementation and operation;
8. Undertake the required training and trials to ensure compliance, competency and performance; and
9. Implement the above through sound program, change and stakeholder management.

The estimated incremental (ie costs above that already approved in SMs Allowable Revenue) capital cost of the above scope of works is \$11.95 million (including allowances for risk and escalations) over the 2011/12-2012/13 financial years. Ongoing incremental operating costs are estimated to average at \$1.72 million per annum (including allowances for risk and escalation) over the next 4 years.

Due to the delay between SM incurring the costs and increase in market fees in July 2013 there will also be a \$3.79 million financing cost. Actual cost will depend on recovery treatment which will need to be agreed with the ERA.

4. Please indicate the time required for your organisation to implement the change, should it be accepted as proposed.

SM's program plan for the full implementation of the new market is aligned to achieve a late April 2012 transitional market go-live date and the December 2012 date for the full market. This involves multiple project workstreams and numerous dependencies so there is heightened risk of delays.

SM is supportive of the use of transitional arrangements to build understanding of the new market, build confidence in new systems and reduce pressure on system development whilst still achieving some benefits.

SM is only seeking internal approval for its program of works in November 2011 on the basis that:

1. The competitive balancing market Cost Benefit Analysis completed in April 2011 utilised significantly lower costs for SM than those subsequently estimated when a more complete design concept was established, and it was only in September 2011 that it was confirmed the CBA findings were still robust to the latest SM costs.
2. Ongoing development of proposed market Rule changes prior to Public Consultation release made it impossible to lock down SM scope sufficiently to enable reasonable level of estimating accuracy.

As such this only leaves 5 months from internal approval for SM to undertake the significant development work required to implement the new market systems, which thus puts the April 2012 go-live at risk.

SM's previously initiated Dispatch Decision Support System project (due to complete in March 2012) that will undertake generation dispatch planning and Scheduling in the transitional market reduces this delay risk somewhat.

However due to the time available, SM's transitional market systems will have limited redundancy and robustness thus imposing some system security risks (eg due to higher risk of dispatch instruction communication failures) and increasing risk of IT system failure, thus resulting in SM having to call High Risk and dispatch out of merit.

SM notes other risks to the April 2012 go-live date:

1. Small timeframe from Rules approval to market go-live.
2. Magnitude of the change and the consequential likelihood of significant issues being raised in the public consultation process requiring extension in Rule change timeframes. SM recognises the consultation efforts of the IMO through the Rules Development & Implementation Working Group in developing the market design and Rules which reduces this risk. However given the magnitude of the change and limited RDIWG membership it is likely that a number of new issues will be raised.
3. Ongoing discussions between the IMO and SM on detailed design issues with flow on impacts to the Rules and market procedures.
4. Rules being more outcome based thus market procedures having greater importance and are necessary to provide the required detail to Market Participants. Procedure development has only recently commenced. {Note: Market procedures workshop has been delayed by 2 weeks which represents 5% of the available time before market go-live. SM believes the market procedures development was on the critical path for market go-live and thus a 2 week delay in market go-live is warranted.}
5. Market trials will only truly test the new systems if all participant (including SM) systems are functional. SM will only be able to actively participate towards the back end of the market trial period and still in a limited capacity. Through discussions with various generators, SM understands a number of participants are yet to make significant inroads into their system designs and are thus unlikely to be able to actively participate either.
6. Ability of market participants to have their systems in place to achieve the requirements of the new market. SM notes the IMO is proposing to initially reduce compliance requirements on generators but limit the way they participate in balancing. This is likely to reduce the number of participants initially actively participating in balancing. The IMO should consider when the bulk of generators will have systems in place to actively participate and select this as the go-live date to ensure sufficient levels of competition to achieve the identified benefits of the new market.

SM believes that given the above risks consideration should be given to pushing back the transitional market go-live at least a few months. SM's system development plan would enable more robust communications to be introduced in July 2012 however this would also require generators systems to match.

Attachment C – Drafting Issues

SYSTEM MANAGEMENT - DRAFTING ISSUES
RC_2011_10 - Comp. Bal and LFAS

Rule # 7A.1.1A

Description As a matter of governance the proposed commencement date for commencement of the Balancing Market should not be specified in the rules rather it should be a date determined by the Minister

Rule # 7A.1.2

Description As a matter of governance there appears to be no clear Heads of Power to include the Balancing Market Objectives in the Rules. (In contrast the the Electricity Industry Act 2004 gives a heads of power to the current market objectives).

Rule # 6.16A.2

Description Drafting issue - It is unclear how an unscheduled generator could have an upward Out of Merit Generation value.

Rule # 5.9.3(b)

Description Drafting issue - The clause 7.13.1(cAA) does not exist. Is 7.13.1(cC) the correct clause

Rule # 7B.3.1

Description The proposed clause may result in market Inefficiencies. Specifically it is unclear why the Verve Portfolio is excluded. If the Verve portfolio price is less expensive than the other prices it should be chosen

SYSTEM MANAGEMENT - DRAFTING ISSUES
RC_2011_10 - Comp. Bal and LFAS

Rule # 9.9.1(b)

Description The proposed clause as drafted may result in market inefficiencies. The LFR(m) value used in clause 9.91(b) is a monthly quantity. In the new proposed market the LFR will vary on a 6 hourly block basis. This should be LFR(t) or else the calculation will be inefficient.

Rule # 3.9.1(c)

Description The proposed change prevents dispatchable load from entering LFAS market if it determines it wants to do so - This proposed change states that a dispatchable load is unable to provide LFAS and may imply it may not be a Non-Balancing Facility It is not in accordance with market objective "1.2.1 (c) to avoid discrimination in the market against particular energy options and technologies including sustainable

Rule # 7B.12.14

Description It is noted there is no price cap for LFAS submission. System management believes no caps can lead to unreasonable costs being imposed on the market. This exposes the market to excessive costs as "a reasonable expectation" is difficult to determine ahead of time as it depends on future market outcomes.

Rule # Glossary

Description The proposed clause as drafted may result in market inefficiencies. When two generators bid an equal offer price (non loss factor adjusted) the offer price must be divided by the loss factor to give the correct price stack so that the generator with the lowest loss factor (the more expensive one) is higher in the stack. The adjustment should also be in the rule not the glossary because it limits the price.

Rule # 7B.2.14

Description Drafting - It is unclear why the term "incremental" rather than the term "short run marginal" is used.

SYSTEM MANAGEMENT - DRAFTING ISSUES
RC_2011_10 - Comp. Bal and LFAS

Rule # 7B.3.7 & 7B.3.8

Description Drafting - These are dispatch obligations and should be in Chapter 7: Dispatch

Rule # 9.9.1(b)

Description Drafting - The Backup Upward LFAS price and the Backup Downward LFAS price are not defined in the Glossary

Rule # 7.10.7

Description Drafting - MR 7.10.7 continues to refer to deviations within the Tolerance Range (when referring back to MR 7.10.5) but the only deviation referred to in MR 7.10.5 which has not been deleted refers to deviations outside of the Tolerance Range. Therefore references to deviations within the Tolerance Range in MR 7.10.7 appear redundant.

Rule # Glossary

Description Drafting - The reference to MW should be replaced by MWh The proposed clause as drafted may result in market inefficiencies It is unclear as to why value this is not reviewable or its origin

Rule # 7A.2.10

Description The requirement to reflect commissioning plans in balancing submissions and keep them updated through commissioning may be unrealistic in terms of the time frame for such submissions.

SYSTEM MANAGEMENT - DRAFTING ISSUES
RC_2011_10 - Comp. Bal and LFAS

Rule # 7.7.3A(d)

Description Drafting - MR 7.7.3A(d) – the reference to “Test” should be “Test under these Market Rules” to be consistent with the definition of “Operating Instruction”.

Rule # 7.11.6AA

Description System Management (SSOC) should not have exposure to risk of disclosing confidential information. System Management’s response to this clause will result in Dispatch Advisories containing less useful information that they might otherwise contain with resultant limitation on the ability of hte market to respond

Rule # 2.10.2A

Description Drafting - The amending rules propose that MR “2.10.1A” be a protected provision. This provision does not exist. It is assumed this should refer to MR 2.10.2A.

Rule # 7.11.1

Description Drafting - The reference to “facilities” in MR 7.11.1 should be capitalised.

Rule # 7.11.6(dA)

Description Drafting - The reference to MR “7A.5.13” in MR 7.11.6(dA) is incorrect (MR 7A.5.13 does not exist).

SYSTEM MANAGEMENT - DRAFTING ISSUES
RC_2011_10 - Comp. Bal and LFAS

Rule # 7A.1.5

Description Drafting - The reference to "market procedures" in MR 7A.1.5 should be capitalised.

Rule # 7B.2.17

Description Drafting - The reference to MR "7B.2.16" in MR 7B.2.19 should be 7B.2.17.

Rule # -

Description It is not clear how plant in the VE balancing portfolio are to be treated during commissioning. Verve Energy offer their portfolio to the market as a single facility but at certain times would have some units commissioning and others not. How would VE construct their offers at such times? How would System Management dispatch the VE portfolio?

Rule # -

Description System Management would like to see details of Ancillary Services costs published including the costs of procuring additional ancillary services to cover commissioning generators. System Management believes it is in the market's interests to have these costs transparent.
