

Independent Market Operator



Final Market Rule Change Report

Title: STEM Timeline Flexibility

Ref: RC_2007_06

Date: 23 October 2007

CONTENTS

1.	INTRODUCTION	2
1.1.	General Information about Rule Changes.....	2
1.2.	About this Rule Change	2
2.	THE RULE CHANGE PROPOSAL.....	4
2.1.	The Submission.....	4
2.2.	Details of the Proposal	4
2.3.	Amending Rules Proposed by the IMO.....	6
3.	SUBMISSIONS RECEIVED IN THE FIRST SUBMISSION PERIOD.....	8
3.1.	Market Advisory Committee	8
3.2.	Submission from Synergy	8
3.3.	Public Forums and Workshops	8
4.	THE IMO'S DRAFT DECISION	9
5.	SUBMISSIONS RECEIVED IN THE SECOND SUBMISSION PERIOD.....	10
5.1.	Submission from Alinta Sales	10
5.2.	Submission from the ERA	10
6.	THE IMO'S ASSESSMENT AND FINAL DECISION.....	11
6.1.	The IMO's Assessment	11
6.2.	IMO's Final Decision	12
6.3.	Amending Rules Commencement	12
7.	PROPOSED AMENDING RULES	13
7.1.	New Clause 6.4.6.....	13
7.2.	Amended Clause 6.5A.1	13
7.3.	Amended Clause 6.12.1	14

DOCUMENT DETAILS

IMO Notice No.: RC_2007_06
Report Title: Final Rule Change Report: STEM Timeline Flexibility
Release Status: Public
Confidentiality Status: Public domain
Published in accordance with Market Rule 2.7.8

Independent Market Operator

Level 22, The Forrest Centre
221 St George's Terrace, Perth WA 6000
PO Box 7096, Cloisters Square, Perth WA 6850
Tel. (08) 9254 4300
Fax. (08) 9254 4399
Email: imo@imowa.com.au
Website: www.imowa.com.au

1. INTRODUCTION

1.1. *General Information about Rule Changes*

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

In order for the Proposal to be progressed, 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
- (e) to encourage the taking of measures to manage the amount of electricity used and when it is used

A Rule Change Proposal can be processed using a Standard process or a Fast Track process. The Standard process involves a combined 10 weeks public submission period. Under the shorter Fast Track process the IMO consults with Rule Participants who either advise the IMO that they wish to be consulted or the IMO considers have an interest in the change.

1.2. *About this Rule Change*

On 11 June 2007, the IMO submitted a Rule Change Proposal titled STEM Timeline Flexibility.

This Proposal has been processed by the IMO using the Standard Rule Change Process, described in section 2.7 of the Wholesale Electricity Market Rules.

The Standard Process adheres to the following timelines, outlined in section 2.7 of the Market Rules:

- The Public Submission period is 30 Business Days after the IMO has published the Rule Change Notice for the Proposal.
- The IMO must publish a Draft Rule Change report within 20 Business Days of the end of the submission period.

Public Domain

- The second Public Submission period is for a minimum of 20 Business Days from the date the Draft Rule Change Report is published.
- Within 20 Business Days after the end of the second Public Submission period, the IMO must publish a Final Rule Change Report.

The key dates in processing this Rule Change Proposal are:

- The Rule Change Notice for this Proposal was published on the IMO website on 19 June 2007.
- The first Public Submission period on the Rule Change Proposal ended on 31 July 2007.
- The IMO Draft Rule Change Report was published on 28 August 2007.
- The second Public Submission period was from 29 August to 25 September 2007.
- This Final Rule Change Report was published by the IMO on 23 October 2007.

Based on the submissions received, and the IMO's assessment of the proposed changes against the Market Objectives, the IMO's draft decision is to accept the Rule Change in its proposed form, as described in section 7 of this report.

This Final Rule Change Report on the Rule Change Proposal has been prepared by the IMO in accordance with clause 2.7.8 of the Market Rules.

2. THE RULE CHANGE PROPOSAL

2.1. *The Submission*

The IMO submitted, on 11 June 2007, a Rule Change Proposal regarding an inclusion of a new clause 6.4.6, and changes to clauses 6.5A.1 and 6.12.1 of the Wholesale Electricity Market Rules.

2.1.1. *Submission Details*

Name: Anne Nolan
Phone: (08) 9254 4300
Email: imo@imowa.com.au
Organisation: IMO
Date submitted: 11/05/2007
Urgency: High
Change Proposal title: STEM Timeline Flexibility

2.2. *Details of the Proposal*

The IMO submitted that experience in operating the Wholesale Electricity Market has revealed that the rigid timeframes within the Market Rules applying to the daily Short Term Energy Market (STEM) processes can lead to market suspension even where this is not necessary for operational purposes.

Since the start of energy trading in the Market, there have been two suspensions arising due to IMO system issues and the inability to open the STEM submission windows in time to meet the requirements in the Market Rules. These would likely have been avoided, had there been more flexibility in the STEM timelines.

The IMO's Proposal is to introduce, where necessary, some flexibility into the STEM timelines in Chapter 6 of the Market Rules in the event of IMO system issues. The purpose is to minimise the possibility of a STEM suspension only due to the rigid timelines, in cases where some flexibility in the opening and closing windows would enable STEM to be cleared instead of suspended.

Under the current Chapter 6 of the Market Rules, the IMO is required to:

- Determine and publish STEM supporting information by 9:00 AM including:
 - Outage schedules
 - Ancillary service amounts
 - Participant limits
 - Facility Limits
- Open the STEM submission window by 9:00 AM
- Close the STEM submission window by 9:50 AM
- Run the STEM auction between 10:00 AM and 10:30 AM.

The Rules require that the IMO suspend the STEM if no valid STEM results can be produced in accordance with the STEM auction timelines.

In accordance with the IMO Operational Contingency Procedures, if any party intended to submit a STEM offer but failed to do so in time, due to an IMO system issue, the STEM result is invalid and the STEM should be suspended for that trading day.

Meeting the STEM timelines in the Rules ensures that the Resource Plan window can open at 11:00 AM and that the Dispatch Merit Order for System Management can be determined at an early point in the day. However, through discussions with System Management in mid 2006, it was determined that the Dispatch Merit Order can be provided later in the day on occasion, though this is not desirable on a regular basis.

These discussions resulted in a rule change to clause 6.5.1(b), implemented in September 2006, that allows the IMO to delay the Resource Plan submission window closing time until 15:00 PM if system issues prevent a Participant from submitting a Resource Plan before the 12:50 PM closing time prescribed in the Rules. However, this Rule change only considered the Resource Plan submissions, not the STEM submissions.

The IMO proposes that similar timeline extensions be permitted for timelines related to the STEM on occasions where there are IMO system issues. This would mean that, if IMO system issues occur at any point during the process, the IMO would have the discretion to delay all remaining processes for up to two hours before the STEM is suspended. This would allow Participants to submit STEM submissions for the relevant trading day, instead of the IMO having to suspend the STEM.

In its Proposal, the IMO clarified that delays to the relevant timelines would only be introduced in the presence of IMO system issues which prevent the IMO from completing the STEM processes and would otherwise lead to a STEM suspension. The proposed changes will require the IMO to immediately advise all participants if an IMO system issue is likely to lead to a delay in any of the STEM timelines.

In addition, the IMO proposed to allow similar flexibility for submitting Balancing Data and determining the Dispatch Merit Order as was introduced to clause 6.5.1(b), in September 2006, allowing the IMO to delay the Resource Plan submission window closing time. Resource Plan submissions and Balancing Data Submissions are made in accordance with the same timeframes and system issues will impact similarly on both of these processes. The Dispatch Merit Order cannot be prepared before the Balancing Data Submissions window is closed. The IMO submitted that it was both consistent and important to align these processes with any changes to the closing times for the Resource Plan submissions window.

2.3. Amending Rules Proposed by the IMO

The IMO proposed the following amendments to the Market Rules:

2.3.1. New clause 6.4.6

The following new clause was proposed to be included in Chapter 6 of the Rules:

6.4.6. In the event of a software system failure at the IMO site or its supporting infrastructure, which prevents the IMO from completing the relevant processes, the IMO may extend one or more of the timelines prescribed in sections 6.3A, 6.3B and this section 6.4, subject to:

- (a) any such extension not resulting in more than two hour delay to any of the timelines prescribed in sections 6.3A, 6.3B and this section 6.4; and
- (b) any such extension maintaining 50 minute window between the timelines prescribed in 6.3B.1(a) and 6.3B.1(b) as extended by the IMO;

and the IMO must advise Rule Participants of any such extension as soon as practicable.

2.3.2. Amendments to clauses 6.5A.1 and 6.12.1

In addition, amendments to clauses 6.5A.1 and clause 6.12.1 were proposed to correct an oversight when a Rule change to clause 6.5.1(b) was implemented in September 2006, allowing the IMO to delay the Resource Plan submission window closing time:

6.5A.1. Market Participants other than the Electricity Generation Corporation that are Market Generators or that are Market Customers with Dispatchable Loads or Curtailable Loads may submit Balancing Data Submission data for a Trading Day to the IMO between:

- (a) 11:00 AM on the Scheduling Day; and
- (b) 12:50 PM on the Scheduling Day, with the exception that if:
 - i. a software system failure at the IMO site or its supporting infrastructure has prevented any Rule Participant from submitting a Balancing Data Submission; or
 - ii. a software system failure at a Rule Participant site or its supporting infrastructure has prevented that Rule Participant from submitting a Balancing Data Submission and that Rule

Participant has informed the IMO of this failure by 12:30 PM on the Scheduling Day:

the IMO may at its discretion extend the closing time to up to 3:00 PM on the Scheduling Day.

6.12.1.

- (a) By 1:30 PM on the Scheduling Day (or within 40 minutes of a closing time extended in accordance with clause 6.5.1(b) or clause 6.5A.1(b)), the IMO must determine the Dispatch Merit Orders identified in paragraphs (b) to (g).

3. SUBMISSIONS RECEIVED IN THE FIRST SUBMISSION PERIOD

IMO received one submission, from Synergy. A summary of the submission is provided below. The submission can be found on the IMO website.

3.1. *Market Advisory Committee*

The Market Advisory Committee (MAC) was invited to have preliminary discussions on the Proposal at its meeting on 9 May 2007, before it was formally submitted by the IMO.

MAC expressed general support for the proposed changes to the timelines, and made a few suggested amendments to the proposed wording of the new clauses. MAC suggested that the amended clause 6.5A.1 (related to Balancing Data Submissions) should refer to general system and communication issues, not just issues at the IMO's or Participant's site. It was also agreed to replace the reference to Market Participants with Rule Participants.

The IMO incorporated the amendments suggested by MAC in its formal Rule Change Proposal.

At the MAC meeting on 11 July, members were again invited to express their view on the Rule Change Proposal. MAC members were supportive of the Rule change.

3.2. *Submission from Synergy*

In its submission, Synergy expressed its support of the IMO's Proposal. It submitted that, if systems issues occur, at any point during the process, the IMO ought to have the discretion to delay all remaining processes for up to two hours before the STEM is suspended – provided there is an undertaking that such delays to the relevant timelines would only be introduced if the system issues relate specifically to the IMO systems. Synergy also supported the communications arrangements proposed by the IMO, i.e. that the IMO will immediately advise all Participants if a system issue is likely to lead to a delay in any of the STEM timelines.

Synergy considered that the change would facilitate Market Objective (a).

3.3. *Public Forums and Workshops*

No public forums or workshops were held in relation to this Rule Change Proposal.

4. THE IMO'S DRAFT DECISION

Based on the submissions received and its own assessment against the Market Objectives, the IMO's draft decision was to accept the proposed changes to Chapter 6 as proposed by the IMO.

The IMO made its draft decision on the basis that the resulting Amending Rules will allow the Market Rules to better address the Market Objectives.

5. SUBMISSIONS RECEIVED IN THE SECOND SUBMISSION PERIOD

The second submission period was between 29 August 2007 and 25 September 2007, following the publication of the Draft Rule Change Report. The IMO received two submissions: one from the ERA and one from Alinta. A summary of the submissions is provided below. The submissions can be found on the IMO website.

5.1. *Submission from Alinta Sales*

Alinta expressed support for the IMO's proposal to introduce more flexibility into the STEM timelines. Alinta considered that the proposed change would better facilitate the achievement of Market Objectives (a), (b) and (d) of the Market Rules.

In relation to Market Objective (a) Alinta considered that achievement of the objective would be improved as the proposed change would increase the likelihood that the STEM is run and dispatch of units on the system is based on the most up to date information available. Alinta's view was that this should lead to a more efficient outcome than the current version of the Rules where the STEM may be suspended unnecessarily.

In relation to Market Objective (b) Alinta considered that this would be better achieved as an existing barrier to entry would be removed.

In relation to Market Objective (d) Alinta considered that this would be marginally better achieved as a consequence of the increased competitive tension.

Alinta had not identified any significant cost impact on its own IT systems.

5.2. *Submission from the ERA*

The ERA considered that it is important for the operation of the IMO's IT system to minimise any disruptions to the STEM process. The ERA's submission therefore supported the IMO having the discretion to extend the STEM timeline, but it considered that a log should be maintained to record any incident where a timeline is extended. The ERA submitted that this would provide important information on the effectiveness of the Wholesale Electricity Market.

The ERA noted that the benefits of this rule change proposal, in meeting the Market Objectives, had been extensively discussed in the Rule Change Notice and Draft Rule Change Report. The ERA agreed with the stated benefits.

The ERA also advised that in assessing the effectiveness of the IMO in carrying out its functions in the Wholesale Electricity Market, the ERA intended to monitor the incidence of events where the STEM timeline had not been met.

The IMO will maintain a log to record any incident where a timeline under Chapter 6 of the Market Rules is extended by the IMO.

6. THE IMO'S ASSESSMENT AND FINAL DECISION

No interested party expressed concerns regarding the amendments to the Market Rules as proposed in the IMO's Draft Rule Change Report. In their submissions, both Alinta and the ERA expressed support of the proposed changes.

6.1. The IMO's Assessment

According to clauses 2.4.2 of the Market Rules *"the IMO must not make Amending Rules unless it is satisfied that the Market Rules, as proposed to be amended or replaced, are consistent with the Wholesale Market Objectives"*.

The IMO' assessment against each of the Market Objectives is as follows:

- (a) *to promote the economically efficient, safe and reliable production and supply of electricity and electricity related services in the South West interconnected system.*

Assessment: The IMO considers that economic efficiency will be promoted by determining the STEM and the Balancing prices on the basis of the most current participant bids and offers instead of the administrated prices that would result if the Market Systems cannot produce valid STEM results within the prescribed timelines. This is consistent with the operation of objective (a) of the Market Objectives. In its submission, Synergy supported the IMO's assessment.

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

Assessment: The STEM is an important component of the Wholesale Electricity Market and measures taken to ensure that STEM trading is not suspended will benefit competitive trades in the market. Reducing the risk of having to suspend the STEM for any trading day will assist existing participants in maintaining their confidence in the Wholesale Electricity Market and in the STEM as a trading place, in particular. It will also provide confidence to prospective participants in finding that the STEM market is a stable and reliable trading environment in which to participate.

The IMO considers that the proposed changes, therefore, are consistent with the operation of objective (b) of the Market Objectives.

- (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.*

Assessment: The IMO 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*

Assessment: The IMO considers that because of their expected positive contribution to the achievement of objectives (a) and (b), the proposed changes are consistent with the operation of objective (d) of the Market Objectives.

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

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

In accordance with Clause 2.4.3(b) of the Market Rules, in deciding whether or not to make Amending Rules, the IMO must also have regard to the practicality and cost of implementing the Amending Rules.

The proposed changes to Chapter 6 will not require changes to the Wholesale Electricity Market System operated by the IMO. The IMO's assessment indicates that there will be no other practical implications or additional costs in implementing the changes for the IMO or any other participant.

6.2. IMO's Final Decision

The IMO's final decision is to:

- Accept the changes to Chapter 6 of the Market Rules as proposed.

The IMO has made its proposed decision on the basis that the amended Rules will allow the Market Rules to better address the Market Objectives.

The wording of the relevant amending Rules is presented in section 7 of this Report.

6.3. Amending Rules Commencement

The amendments to Chapter 6 of the Wholesale Electricity Market Rules will commence at 08.00am on 25 October 2007.

7. PROPOSED AMENDING RULES

The following clauses are amended (~~deleted wording~~, new wording):

7.1. ***New Clause 6.4.6***

6.4.6. In the event of a software system failure at the IMO site or its supporting infrastructure, which prevents the IMO from completing the relevant processes, the IMO may extend one or more of the timelines prescribed in sections 6.3A, 6.3B and this section 6.4, subject to:

- (a) any such extension not resulting in more than two hour delay to any of the timelines prescribed in sections 6.3A, 6.3B and this section 6.4; and
- (b) any such extension maintaining 50 minute window between the timelines prescribed in 6.3B.1(a) and 6.3B.1(b) as extended by the IMO;

and the IMO must advise Rule Participants of any such extension as soon as practicable.

7.2. ***Amended Clause 6.5A.1***

6.5A.1. Market Participants other than the Electricity Generation Corporation that are Market Generators or that are Market Customers with Dispatchable Loads or Curtailable Loads may submit Balancing Data Submission data for a Trading Day to the IMO between:

- (a) 11:00 AM on the Scheduling Day; and
- (b) 12:50 PM on the Scheduling Day, with the exception that if:
 - i. a software system failure at the IMO site or its supporting infrastructure has prevented any Rule Participant from submitting a Balancing Data Submission; or
 - ii. a software system failure at a Rule Participant site or its supporting infrastructure has prevented that Rule Participant from submitting a Balancing Data Submission and that Rule Participant has informed the IMO of this failure by 12:30 PM on the Scheduling Day;

the IMO may at its discretion extend the closing time to up to 3:00 PM on the Scheduling Day.

7.3. Amended Clause 6.12.1

6.12.1.

- (a) By 1:30 PM on the Scheduling Day (or within 40 minutes of a closing time extended in accordance with clause 6.5.1(b) or clause 6.5A.1(b)), the IMO must determine the Dispatch Merit Orders identified in paragraphs (b) to (g).