Independent Market Operator

Draft Market Rule Change Report

Title: Intermittent Generator Resource Plan Exemption

Ref: RC_2007_10

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CONTENTS

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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 13 September 2007, Synergy submitted a Rule Change Proposal regarding changes to clauses 6.5.1A, 6.5.1C, 6.17.1, 6.17.5, 6.21.2, 7.10.1, 9.8.1 and the Glossary in Chapter 11 of the Wholesale Electricity Market Rules.

This Proposal is being processed 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.

- 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 17 September 2007.
- The first Public Submission period on the Rule Change Proposal ended on 29 October 2007.
- This Draft Rule Change Report is published on 26 November 2007.
- The second Public Submission period is from 26 November to 24 December 2007.
- The Final Rule Change Report will be published by the IMO on 24 January 2008.

Based on the submissions received, the IMO's draft decision is to accept the Rule Change in the proposed form outlined in section 6 of this report.

This Draft Rule Change Report on the Rule Change Proposal has been prepared by the IMO in accordance with clause 2.7.6 of the Market Rules.

Interested parties are invited to provide further submissions in relation to this Draft Rule Change Report. In accordance with the Market Rules timelines, the deadline for submissions is 24 December 2007.

2. THE RULE CHANGE PROPOSAL

2.1. The Submission

On 13 September 2007, Synergy submitted a Rule Change Proposal regarding changes to clauses 6.5.1A, 6.5.1C, 6.17.1, 6.17.5, 6.21.2, 7.10.1, 9.8.1 and to the Glossary in Chapter 11 of the Wholesale Electricity Market Rules.

2.1.1. Submission Details

Name:	**Jenni Conroy**
Phone:	**6212 1661**
Email:	**Jenni.conroy@synergyenergy.com.au**
Organisation:	**Synergy**
Date submitted:	**13 September 2007**
Urgency:	**3- high**
Change Proposal title:	**Intermittent Generator Resource Plan Exemption**

2.2. Details of the Proposal

Synergy submitted that the Market Rules generally recognise Intermittent Generators differently from Scheduled Generators by taking into account the fact that Intermittent Generators do not have the same control as Scheduled Generators over their output.

However, Synergy argued that certain rules do not recognise this important difference and impose obligations on Intermittent Generators that cannot always be met. Such obligations create uncertainty for Intermittent Generators and this potentially creates a barrier to entry. In Synergy's view, the removal of these obligations will promote the objectives of the market, with regard to avoiding discrimination against technologies that use renewable resources (Market Rule 1.2.1(c)) as well as promoting efficient entry (Market Rule 1.2.1(b)).

2.2.1. Removal of the Requirements to Submit and Comply with Resource Plans

Synergy proposed that the requirement for Market Generators that only have Intermittent Generators to make Resource Plan Submissions be removed. Resource Plans must be submitted by 12:50 pm on the Scheduling Day. Synergy argued that in all likelihood, these plans will not reflect an Intermittent Generator's actual generation through the Trading Day.

Synergy submitted that the Market Rules recognise this and require Intermittent Generators to provide, by 10 am daily, a forecast of energy output for the 44-hour period commencing at noon. This ensures that System Management has the latest information available. However, this process results in the Intermittent Generator's Resource Plan being effectively redundant. Synergy submitted that System Management has confirmed that Resource Plans are generally not used to predict generation for Intermittent Generators.

In its proposal, Synergy recognised that Intermittent Generators may still elect to make a Resource Plan Submission. That is, the option to do so should be retained.

Further, Synergy proposed that the requirement for Intermittent Generators to comply with Resource Plans be also removed. It is impractical to require Intermittent Generators to comply with their Resource Plans when they do not have full control over their output.

Synergy claimed that the requirement for Intermittent Generators to comply with Resource Plans, when it is impractical to do so, creates uncertainty for Intermittent Generators and hence their on-going financial viability. Synergy argued that removing this uncertainty reduces risk for both commissioned generators and those considering entry.

2.2.2. Removal of the Resource Plan Deviation Quantity

In addition, Synergy proposed that the Resource Plan Deviation Quantity (RPDQ) be removed from the balancing settlement. Currently, the balancing settlement quantities include the determination of the RPDQ, which is priced at the Downward Deviation Administered Price (DDAP). According to Synergy's proposal, this is effectively a penalty against Market Generators. Synergy submitted that currently it is not clear what type of behaviour is being discouraged through the application of this penalty.

Synergy noted that an RPDQ only arises where a shortfall exists (the difference between a Net Contract Position (NCP) and a Resource Plan (RP)) and a generator's output exceeds its resource plan.

Synergy submitted that, for example, for an NCP of 100 and an RP of 80, and thus a shortfall of 20, if the actual output is less than the RP, an RPDQ will not be defined. In Synergy's example, if the actual output were 70, then no RPDQ would be defined and no penalty would apply even though a shortfall was recorded as part of the Resource Plan Submission. It is only when the output exceeds the RP that the RPDQ is defined. In this example, if the output were 90 then the RPDQ would be 10. By increasing generation from 80 to 90, the generator is charged a penalty ie. 10 * DDAP. Synergy argued that this is counterintuitive as a generator may be trying to make good the shortfall.

Synergy argued that in its current formulation the RPDQ creates inefficient outcomes by penalising generators in certain circumstances without any obvious benefits to market efficiency.

Synergy therefore advocated that the removal of the RPDQ would reduce uncertainty for all generators and promote market efficiency. This proposed amendment would also give effect to the original intent of the Market Rules – namely that Intermittent Generators should not be penalised in the balancing mechanism when deviating from their Resource Plans.

The Rule Changes proposed by Synergy are outlined in section 5 of this Report.

2.3. The IMO's Initial Assessment of the Proposal

The IMO decided to proceed with the proposal on the basis of its preliminary assessment, which indicated that the proposal was consistent with the Market Objectives. This preliminary assessment was published in a Rule Change Notice on 17 September 2007.

3. SUBMISSIONS

IMO received two submissions, from Landfill Gas and Power Pty Ltd and Alinta Sales Pty Ltd. A summary of the submissions is given below. The full text of the submissions can be found on the IMO website.

3.1. Submission from Landfill Gas & Power (LGP)

LGP supported Synergy's contention that Intermittent Generators do not have the same control over their output as Scheduled Generators and that the Market Rules that do not recognise this increase the risk profile of developing an Intermittent Generator and can create a barrier to entry. LGP submitted that the removal of the requirement to submit Resource Plans would avoid unnecessary obligations and promote the use of renewable energy technologies.

LGP also supported Synergy's contention that the removal of the Resource Plan Deviation Quantity from the balancing settlement quantities would remove confusion, thereby improving market efficiencies.

3.2. Submission from Alinta Sales Pty Ltd (Alinta)

Alinta agreed with Synergy's Proposal to remove the obligation on Intermittent Generators to submit and follow a resource plan. Alinta questioned why the Proposal had been limited to generators that only have intermittent generation in their portfolio, and suggested that to avoid discrimination in the treatment of intermittent generators, the change should apply to all intermittent generators. Alinta considered that the proposal might not satisfy market objectives (b) and (d) if it did not apply to all intermittent generators.

Alinta also sought further detail and supporting analysis regarding the removal of the RPDQ calculation from the Market Rules, before commenting on that aspect of the rule change.

3.3. Market Advisory Committee

The concerns expressed by Alinta in its submission were discussed the Market Advisory Committee (MAC) at its meeting on 14 October 2007.

In regard to Alinta's first concern that the proposed new rule would apply only to generators that only have intermittent generation in their portfolio, the IMO clarified that generators with a mixed portfolio are allowed to include in their Resource Plans a zero quantity for their intermittent generators without facing any penalty.

The intent of the rule change is to remove the requirement for participants with only intermittent generators to have to submit a Resource Plan, given that they will not be required to comply with the Resource Plan under the proposed amendment to clause 7.10.1. The new clause 7.10, however, would remove the requirement to follow Resource Plans for all intermittent generators, not only those in a mixed portfolio.

Alinta's second query was regarding the proposal to remove the RPDQ from the Market Rules. The IMO had analysed the current application of the RPDQ and the results of that analysis were provided to MAC. The analysis showed, in summary, that for an RPDQ to be non-zero, the Resource Plan shortfall in clause 6.11.1(e) will also have to be non-zero.

MAC noted that the non-zero RPDQ results are not consistent. For example, a Market Generator, who is also a Market Customer, that has a Scheduled Generator, a positive Net Contract Position and a Shortfall will have a non-zero RPDQ for all types of Dispatch Instructions. However, if the Market Generator is not also a Market Customer, a non-zero RPDQ will only occur with an upward Dispatch Instruction.

MAC noted that the presence of the RPDQ appears to be inappropriate. For example, it could penalise a participant (including a Market Generator with only Non-Scheduled Generators) trying to make good in production a Shortfall it disclosed in its Resource Plan. This can create a perverse incentive for generators not to disclose their Shortfalls.

MAC also noted that as the Resource Plan shortfalls are rarely non-zero and Dispatch Instructions are not given often, non-zero RPDQs have only been encountered a few times since Market Start.

Alinta and MAC in general were satisfied with the explanations given in relation to these two concerns.

3.4. Public Forums and Workshops

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

4. THE IMO'S ASSESSMENT AND DECISION

4.1. Assessment

4.1.1. Submissions

Apart from the matters raised by Alinta, which were satisfactorily addressed at the MAC meeting, all responding parties expressed support for Rule Change proposal. No party proposed any changes to the proposed amendments to the Market Rules.

4.1.2. 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.*

The IMO considers that deleting the Resource Plan Deviation Quantity (RPDQ) from the balancing settlement will remove confusion about the purpose and the application of the RPDQ, thereby improving market efficiencies.

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

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

The IMO considers that the Market Rules as they are currently written impose obligations on Intermittent Generators that are impractical to comply with. Non-compliance with the current Rules exposes such generators to uncertainty. This potential uncertainty unnecessarily increases the risk profile of renewable generators and creates a barrier to entry.

The IMO considers that the proposed changes are, therefore, 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.*

The IMO considers that the proposed changes will give effect to the original intent of the Market Rules – namely that Intermittent Generators should not be penalised when deviating from their Resource Plans. It will therefore avoid perceived discrimination against technologies which cannot comply with the current Rules because of their constraints.

The IMO considers that the proposed changes are, therefore, 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*

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.

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

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 will require changes to the Wholesale Electricity Market Systems operated by the IMO, in particular the settlement systems. The cost of implementing these changes has been estimated at less than $2,000.

The IMO has found this cost to be acceptable and considers that the benefits the change will bring to Market Participants will outweigh the cost. The implementation of the required system changes will take approximately one week. No other costs have been identified in relation to this change during the consultation process.

4.2. IMO's Draft Decision

The IMO's draft decision is to:

- Accept the proposed changes to clauses 6.5.1A, 6.5.1C, 6.17.1, 6.17.5, 6.21.2, 7.10.1, 9.8.1 and to the Glossary in Chapter 11 of the Wholesale Electricity Market Rules, as proposed.

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

The wording of the relevant Amending Rules is presented in section 6 of this Report.

5. CALL FOR SUBMISSIONS

The IMO wishes to receive submissions regarding this Draft Rule Change Report. The submission period is 20 Business Days from the publication date of this Report.

Submissions must be delivered to the IMO by close of business on Monday, 24 December 2007.

The IMO prefers to receive submissions by email to marketadmin@imowa.com.au using the submission form available on the IMO website:
http://www.imowa.com.au/10_5_1_b_rule_change_proposal.htm

Submissions may also be sent to the IMO by fax or post, addressed to:

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

Fax: (08) 9254 4399

6. PROPOSED AMENDING RULES

The following rule changes are proposed by Synergy:

6.5.1A. ~~Market Participants that are~~ Market Generators with Registered Facilities that are not undergoing commissioning, except those with only Intermittent Generators, or ~~that are~~ Market Customers with Dispatchable Load must provide the IMO with a Resource Plan Submission~~, unless undergoing commissioning,~~ either via submitting Resource Plan Submissions or in accordance with clause 6.5.1B.

6.5.1C. Market Generators with only Intermittent Generators may provide the IMO with a Resource Plan Submission, unless undergoing commissioning, either via submitting Resource Plan Submissions or in accordance with clause 6.5.1B.

6.5.4. If the IMO has not accepted a Resource Plan Submission for a Trading Day by the closing time specified in 6.5.1(b) ~~delete 1 PM on the relevant Scheduling Day~~ from a Market Participant that is required to make a Resource Plan Submission or a Market Participant covered by clause 6.5.1C, then it must prepare a default Resource Plan for that Market Participant which must include, for each Trading Interval on the Trading Day:

(a) all the Market Participant's Scheduled Generators and Non-Scheduled Generators having a scheduled output of zero;

(b) all Dispatchable Loads having a scheduled consumption of zero; and

(c) the level of the supply shortfall required pursuant to clause 6.11.1(e) equal to the total Net Contract Position.

6.17.1. The IMO must determine for each Market Participant and each Trading Interval of each Trading Day:

(a) the Authorised Deviation Quantity;

(b) the Upward Unauthorised Deviation Quantity;

(c) the Downward Unauthorised Deviation Quantity; and

(d) [Blank]~~the Resource Plan Deviation Quantity; and~~

(e) the Dispatch Instruction Payment,

in accordance with this clause 6.17.

6.17.5. [Blank] ~~The Resource Plan Deviation Quantity, RPDQ(p,d,t), for Market Participant p and Trading Interval t of Trading Day d equals:~~

~~(a) if Market Participant p is the Electricity Generation Corporation, zero; and~~

~~(b) otherwise, the lesser of zero and:~~

i. ~~the Net Contract Position of Market Participant p for Trading Interval t, less the shortfall quantity specified in clause 6.11.1(e) less:~~

ii. ~~the lesser of:~~

1. ~~the Net Contract Position of Market Participant p for Trading Interval t;~~

2. ~~the net sum of all the Metered Schedules for Trading Interval t for the Registered Facilities and Non-Dispatchable Loads registered by Market Participant p; and~~

3. ~~the net sum of all the Dispatch Schedules for Trading Interval t for the Registered Facilities and Non-Dispatchable Loads registered by Market Participant p.~~

6.21.2. The IMO must provide the following information to the Settlement System for each Trading Interval in a Trading Day:

(a) MCAP, UDAP and DDAP; and

(b) for each Market Participant:

i. the Authorised Deviation Quantity;

ii. the Upward Unauthorised Deviation Quantity;

iii. the Downward Unauthorised Deviation Quantity;

iv. [Blank] ~~the Resource Plan Deviation Quantity;~~

v. the Dispatch Instruction Payment; and

vi. any Commitment Compensation due to the Market Participant.

7.10.1. Subject to clause 7.10.2, a Market Participant other than the Electricity Generation Corporation must comply with:

(a) subject to paragraph (b), its Resource Plan except where it relates to Intermittent Generators;

(b) if a Dispatch Instruction has been issued for a Registered Facility for a Trading Interval, the most recently issued Dispatch Instruction applicable to the Registered Facility for the Trading Interval; and

(c) a direction given to the Market Participant under clauses 7.6 or 7.10.7(a).

9.8.1. The balancing settlement amount for Market Participant p for Trading Interval t of Trading Day d is:

$$BSA(p,d,t) = MCAP(d,t) \times ADQ(p,d,t) + UDAP(d,t) \times UUDQ(p,d,t) + DDAP(d,t) \times \cancel{(}DUDQ(p,d,t) \cancel{+ RPDQ(p,d,t))} + DIP(p,d,t)$$

Where

ADQ(p,d,t), is the Authorised Deviation Quantity for Market Participant p for Trading Interval t of Trading Day d calculated in accordance with clause 6.17.2;

UUDQ(p,d,t) is the Upward Unauthorised Deviation Quantity for Market Participant p for Trading Interval t of Trading Day d calculated in accordance with clause 6.17.3;

DUDQ(p,d,t) is the Downward Unauthorised Deviation Quantity, for Market Participant p for Trading Interval t of Trading Day d calculated in accordance with clause 6.17.4;

~~RPDQ(p,d,t) is the Resource Plan Deviation Quantity for Market Participant p for Trading Interval t of Trading Day d calculated in accordance with clause 6.17.5;~~

MCAP(d,t) is the Marginal Cost Administered Price for Trading Interval t of Trading Day d calculated in accordance with clause 6.14.2;

UDAP(d,t) is the Upward Deviation Administered Price for Trading Interval t of Trading Day d calculated in accordance with clause 6.14.5;

DDAP(d,t) is the Downward Deviation Administered Price for Trading Interval t of Trading Day d calculated in accordance with clause 6.14.6;

DIP(d,t) is the Dispatch Instruction Payment for Market Participant p for Trading Interval t of Trading Day d calculated in accordance with clause 6.17.6.

Glossary

~~**Resource Plan Deviation Quantity:** The amount calculated in accordance with clause 6.17.5.~~

6.1. Clause 10.5.1

10.5.1 The IMO must set the class of confidentiality status for the following information under clause 10.2.1, as Public and the IMO must make each item of information available from the IMO Web-Site after that item of information becomes available to the IMO:

(a)…….

(i) the following STEM summary information:

i……

ii for each Trading Interval in each ~~completed~~ Trading Day ~~Week~~ during the 12 calendar months, before the start of the Trading Day ~~ending on the last day of the calendar month two months prior to the current calendar month~~:

1. the STEM Offers by Market Participant;

2. the STEM Bids by Market Participant;

3. the quantity bought or sold in the STEM by Market Participant; and

4. the Fuel Declaration, Availability Declaration and, if applicable, Ancillary Service Declaration made by the Market Participant;