



Independent Market Operator

**Final Market Rule Change
Report**

**Title: Exemption from real time
compliance monitoring for
certain commissioning
units**

Ref: RC_2009_09

Date: 17 March 2009

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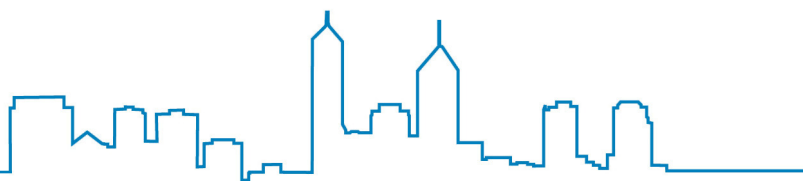
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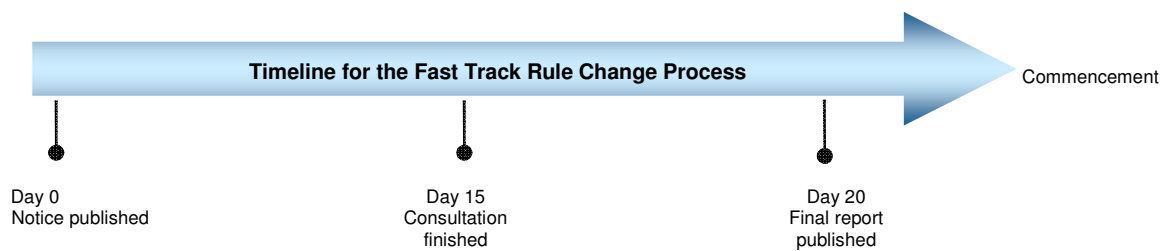


1. INTRODUCTION

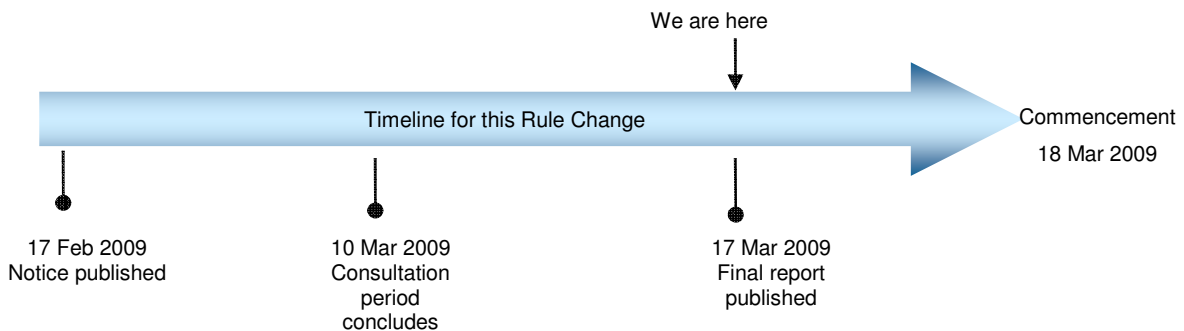
On 16 February 2009 System Management submitted a Rule Change Proposal amending clause 7.10.5 and adding a new clause 7.10.5A to the Wholesale Electricity Market Rules (Market Rules).

This Proposal was processed using the Fast Track Rule Change Process, described in section 2.6 of the Market Rules.

The fast track process adheres to the following timelines:



The key dates in processing this Rule Change Proposal are:



Based on the IMO assessment of the Rule Change Proposal against the Wholesale Market Objectives, the practicality and cost of implementing the proposal, the Market Advisory Committee's (MAC) recommendations, and the outcomes of the public consultation period, the IMO's final decision is to implement the Rule Change Proposal in the form outlined in section 6 of this Report.

The amendments to the Market Rules made as a result of this Rule Change Proposal will commence at 08.00am on 18 March 2009.

2. THE RULE CHANGE PROPOSAL

2.1 Submission Details

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Date submitted:	16 February 2009
Urgency:	Fast Track Rule change process
Change Proposal title:	Exemption from real-time compliance monitoring for certain commissioning units
Market Rule(s) affected:	Clause 7.10.5 and [New] Clause 7.10.5A

2.2 Details of the Proposal

Clause 7.10.5 of the Market Rules requires System Management to undertake certain activities when a Market Participant is not complying with its Resource Plan or a Dispatch Instruction in a manner that:

- i. threatens Power System Security or Power System Reliability; [or]
- ii. would require System Management to issue instructions to the Registered Facilities of the Electricity Generation Corporation or Registered Facilities covered by any Balancing Support Contract or Ancillary Service Contract; or
- iii. would require System Management to issue Dispatch Instructions to other Registered Facilities in accordance with clauses 7.6.3 or 7.6.4.

If any of the above criteria are met, System Management is obliged to warn the Market Participant about the deviation, request an explanation and require cessation of the behaviour within a reasonable period of time. Essentially, clause 7.10.5 imposes “real-time” monitoring and compliance obligations on System Management.

Presently, System Management must exercise its powers under this clause in each and every instance that a Market Participant deviates from their Resource Plan, regardless of whether the deviation variance would substantially impact Power System Security or Reliability. This is because, as presently drafted, *any* deviation from a Resource Plan would meet the criterion expressed in clause 7.10.5(b), with all deviations requiring System Management to issue instructions to the balancing generator, even if by Automatic Governor Control signal to a generator providing load following Ancillary Service.

Where a new generator is “late” and therefore unable to conduct Commissioning Tests pursuant to clause 3.21A of the Market Rules, the existing obligation may serve to prevent the new generator completing its commissioning requirements, and therefore may preclude additional capacity being available.

In addition, during late commissioning it is expected that a new generator will often deviate from their Resource Plan, sometimes for extended periods. System Management must monitor all the deviations in each trading interval and undertake the obligations expressed in clause 7.10.5 in every identified instance. System Management contends this is likely to disrupt the operation of the control room and has the potential to put system security at risk by detracting attention from the principal task of power system operation.

System Management believes that the Market Rules already impose sufficient penalty for breaching a Resource Plan or Dispatch Instruction, and imposing a real-time monitoring obligation in all circumstances is unnecessarily burdensome.

As such, System Management submits that a Rule Change Proposal be pursued to allow it to not follow the process expressed in clause 7.10.5 in certain defined (and limited) circumstances. These circumstances would be:

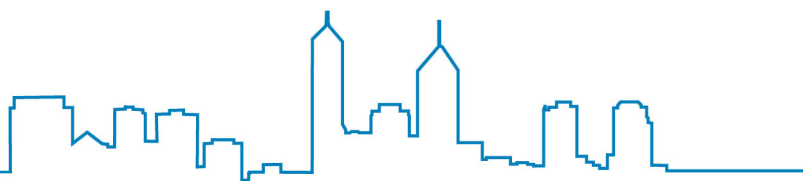
- 1) the failure to comply with the Resource Plan does not threaten power system security;
- 2) System Management has received advance notification of the likely deviation in order for testing to be conducted to enable a unit to enter commercial operation *for the first time* [emphasis added];
- 3) System Management has received and approved a testing plan; and
- 4) System Management considers the deviation to be consistent with the approved testing plan.

It should be noted that a Market Participant continues to be required to conform to its Resource Plan or Dispatch Instruction (clause 7.10.1) and non-compliance can be investigated after the event.

2.3 The Proposal and the Wholesale Market Objectives

System Management submits that the Rule Change Proposal would better address objective (a) of the Market Objectives. The change as submitted would promote the economically efficient, safe and reliable production and supply of electricity and electricity related services in the South West Interconnected System.

The Rule Change Proposal will allow a new Facility to complete commissioning in certain limited circumstances without placing the system at risk. It is the view of System Management that removal of the potentially burdensome application of clause 7.10.5 for a unit which meets the criteria expressed in new clause 7.10.5A would aid the economically efficient, safe and reliable



supply of electricity in the SWIS through the removal of distractions which are otherwise expected to inhibit control room operation.

2.4 The Amending Rules Proposed by System Management

The amendments to the Market Rules originally proposed by System Management are provided in section 6.2 of this final report.

2.5 The IMO's Initial Assessment of the Proposal

The IMO conducted a preliminary assessment of the Rule Change Proposal. This assessment indicated that the proposal was consistent with the Wholesale Market Objectives.

The IMO decided to process this Rule Change Proposal using the Fast Track Rule Change Process, described in section 2.6 of the Market Rules, on the basis that it satisfied the criteria in section 2.5.9(c) of the Market Rules.

Section 2.5.9 states:

The IMO may subject a Rule Change Proposal to the Fast Track Rule Change Process if, in its opinion, the Rule Change Proposal:

(a) is of a minor or procedural nature; or

(b) is required to correct a manifest error; or

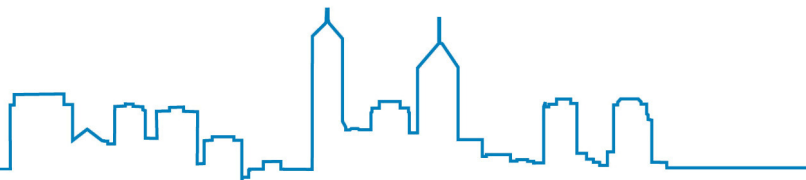
(c) is urgently required and is essential for the safe, effective and reliable operation of the market or the SWIS.

The Rule Change Proposal is urgently required to address the anticipated commissioning of a new generator which otherwise does not meet the requirements of clause 3.21A. The change is essential for the safe, effective and reliable operation of the SWIS because without the change System Management would face an onerous burden of ensuring compliance with clause 7.10.5 by a commissioning generator which is not expected to comply with its Resource Plan. This would divert attention from the normal activities of the control room thereby create a significant risk to the safe, effective and reliable operation of the SWIS.

3. CONSULTATION

An invitation for all Rule Participants to contact the IMO, should they wish to be consulted on this Rule Change, was published on the IMO website on 17 February 2009, together with the Rule Change Notice.

The consultation period for this Rule Change Proposal was between 18 February 2009 and 10 March 2009.



The IMO received a request to be consulted on this Rule Change from Verve Energy. The IMO also received a submission from Landfill Gas and Power (LGP) outside the public consultation process for this Rule Change. The details of the submission received from Verve during the public consultation period and the submission received from LGP outside the public consultation process are summarised below.

3.1 Submission from Verve Energy

In its submission Verve Energy noted that they are exposed in any case and that consideration should be given to provisions for Verve Energy to be provided with indicative day-ahead commissioning plans, after the close of the Short Term Electricity Market (STEM) and/or Resource Plan submission period. This would allow Verve Energy to manage its fuel position as the balancer in the Market. In particular, providing Verve Energy with indicative day-ahead commissioning plans would allow greater certainty regarding its requirements to balance the market on the day after the Resource Plans of other participants have been provided. This would mean Verve Energy would be able to ensure that it would not be affected by inflated prices, and that the long term cost of electricity in the South West Interconnected System would be minimised. Overall, Verve Energy was generally supportive of the proposed Amending Rules.

The IMO's response to Verve Energy's submission is contained in section 4.3 of this report.

3.2 Out of Session submission from Landfill Gas and Power

LGP supported the Rule Change proposal on the ground that an efficient and effective market should permit commissioning generators reasonable operational flexibility and System Management should not be required to real-time monitor their facilities when they are not impacting system security. Furthermore, LGP supported the Fast Tracking of the proposal to accommodate the needs of a new entrant generator.

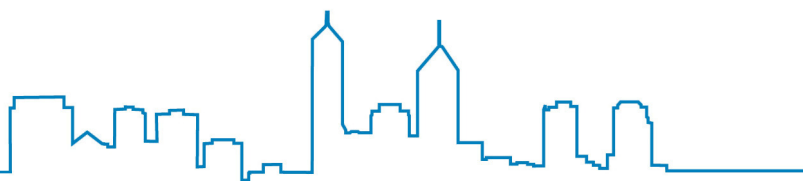
LGP was supportive of System Managements contention that the proposal supports the market objective (a) by allowing a new Facility to complete commissioning without having to comply with potentially burdensome requirements that are both an impediment for the generator and an unnecessary distraction for System Management.

4. THE IMO'S ASSESSMENT

In preparing this Final Rule Change Report, the IMO must assess the Rule Change Proposal having regard to clauses 2.4.2 and 2.4.3 of the Market Rules. This is outlined in the following sections.

4.1 Wholesale Market Objectives

According to clause 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 considers that the Market Rules as a whole, if amended, will be consistent with the Wholesale Market Objectives.

Wholesale Market Objective	Consistent with objective
(a) to promote the economically efficient, safe and reliable production and supply of electricity and electricity related services in the South West interconnected system	Yes
(b) to encourage competition among generators and retailers in the South West interconnected system, including by facilitating efficient entry of new competitors	Yes
(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	Yes
(d) to minimise the long-term cost of electricity supplied to customers from the South West interconnected system	Yes
(e) to encourage the taking of measures to manage the amount of electricity used and when it is used	Yes

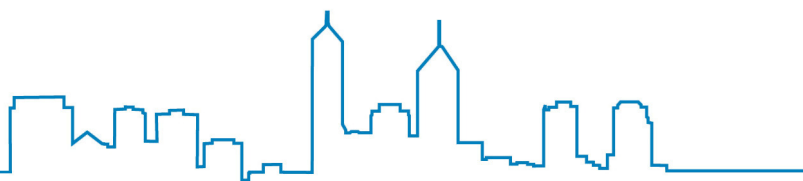
Further, the IMO considers that the Market Rules if amended would not only be consistent with the Wholesale Market Objectives but also allow the Market Rules to better address the Wholesale Market Objectives:

Impact	Wholesale Market Objectives
Allow the Market Rules to better address objective	a
Consistent with objective	b, c, d, and e
Inconsistent with objective	-

The IMO's assessment against market objective (a) 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 proposed rule change supports this objective by removing a current inefficiency in the allocation of System Managements resources, which has been created by the Market Rules. In particular, the real-time monitoring obligations for all circumstances where a Market Participant does not comply with its resource plan, as created under the Market Rules. This means that, (as contended by System Management) they may currently be unable to efficiently allocate resources to ensure system security is maintained. By correcting this in the Market Rules optimal distribution of resources is more likely and therefore risks to system security created by limited resources being allocated to control room operation will be reduced. Furthermore, System Managements resources may be able to be better allocated to achieve maximum net benefit to the market.



The IMO submits that the proposal is consistent with the operation of the other Wholesale Market Objectives.

4.2 Practicality and cost of implementation

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 do not require any change to the Wholesale Electricity Market Systems operated by the IMO or any of the systems operated by System Management.

There have been no additional costs identified with the implementation of this Rule Change Proposal.

4.3 Views expressed from submissions

In accordance with Clause 2.4.3(c) of the Market Rules, in deciding whether or not to make Amending Rules, the IMO must have regard to the views expressed in submissions on the Rule Change Proposal received as part of the consultation process.

In response to Verve Energy's suggestion provisions for Verve Energy to be provided with indicative day-ahead commissioning plans after the close of the STEM and/or Resource Plan submission period should be considered, the IMO note that as this is neither a security nor efficiency issue these considerations should not be addressed as part of this rule change. To that end, the IMO notes that it is currently developing a rule change proposal, Updates to Commissioning Provisions (RC_2009_08) which will increase the level of transparency in the market for all parties, not just the balancer.

The IMO considers that RC_2009_08 would be a more appropriate place to deal with these issues, especially given that the current rule change proposal is subject to the fast track process and so Market Participants would not be given an opportunity to make submissions on any changes to the Amending Rules.

The Amending Rules proposed by the System Management had the support of all parties who made a submission as part of the formal consultation process.

4.4 Views expressed by Market Advisory Committee

In accordance with Clause 2.4.3(d) of the Market Rules, in deciding whether or not to make Amending Rules, the IMO must have regard to the views expressed by the MAC, where the MAC met to consider the Rule Change Proposal.

The MAC was first advised of the proposed Rule Change at its meeting on 11 February 2009. In particular the IMO presented two options with regard to Resource Plan compliance during late commissioning:

- Option1: System Management need not order a Market Participant to comply with their Resource Plan unless system security is threatened. This will apply in all situations where a Facility has a Resource Plan.
- Option2: System Management need not order a Market Participant to comply with their Resource Plan, unless system security is threatened. This will apply where the Facility is “commissioning’ but has a Resource Plan.

The IMO noted that the IMO’s Boards preference was for limiting the rule change to commissioning units. The MAC agreed with this proposition and supported System Management pursuing Option 2 as a formal rule change, but also noted that there may be merit in assessing Option 1 over the longer term.

Members were also invited to discuss the Rule Change Proposal at the MAC meeting on 11 March 2009, after the proposal had been published on the IMO webpage. The MAC discussed whether these provisions should be applicable to capacity entering full commercial operation for the first time or to new capacity entering the market.

The IMO and System Management considered this suggestion and decided to maintain the applicability to first time capacity due to potential issues associated with defining new capacity and ensuring that this provision only applies to new entrant generators during the commissioning phase. Overall, members of the MAC expressed support for the Rule Change Proposal.

5. THE IMO’S FINAL DECISION

The IMO’s final decision is to implement the amendments to clause 7.10.5 and the new clause 7.10.5A of the Market Rules.

5.1 *Reasons for the decision*

The IMO has made its decision on the basis that the Amending Rules:

- Are consistent with the operation of the Wholesale Market Objectives.
- Have the support of both the MAC and all participants who signalled that they wished to be consulted on this rule change; and
- Can be easily implemented at no additional cost to the market while maintaining the integrity of the Market Rules.

Additional detail outlining the analysis behind the IMO’s reasons is outlined in section 4 of this Final Rule Change Report.

6. AMENDING RULES

6.1 Commencement

The amendments to the Market Rules resulting from this Rule Change Proposal will commence at **8:00am** on **18 March 2009**.

6.2 Amending Rules

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

- 7.10.5. Subject to clause 7.10.5A, Wwhere System Management considers that a Market Participant has not complied with clause 7.10.1 in relation to any of its Registered Facilities in a manner that:
- (a) threatens Power System Security or Power System Reliability;
 - (b) would require System Management to issue instructions to the Registered Facilities of the Electricity Generation Corporation or Registered Facilities covered by any Balancing Support Contract or Ancillary Service Contract; or
 - (c) would require System Management to issue Dispatch Instructions to other Registered Facilities in accordance with clauses 7.6.3 or 7.6.4;

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

7.10.5A System Management is not required to follow the process in clause 7.10.5 where:

- (a) it considers that a failure to comply with clause 7.10.1 does not threaten Power System Security or Power System Reliability;
- (b) the Market Participant has notified System Management in advance that it expects to deviate from its Resource Plan in order to subject the relevant Facility to testing, to enable it to enter full commercial operation for the first time;
- (c) the Market Participant has provided System Management with a testing plan;
- (d) System Management has notified the Market Participant that it approves the plan; and
- (e) the deviation is in System Management's opinion consistent with the activities detailed in the approved testing plan.

7. GENERAL INFORMATION ABOUT RULE CHANGE PROPOSALS

Clause 2.5.1 of the Wholesale Electricity Market Rules (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 Market Objectives. The market objectives 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 Rule Change Process or a Fast Track Rule Change 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.