
Wholesale Electricity Market Rule Change Proposal Submission Form

**RC_2009_22 The use of tolerance levels by System
Management**

Submitted by

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Date submitted:	20 May 2010

Submission

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

Background

RC_2009_22 proposes amendments and additions to current Market Rules 2.13 and 7.10.

Market Rule 2.13

Market Rule 2.13.6 requires that System Management:

- monitor Rule Participants' behaviour for compliance with the Market Rules specified in Market Rule 2.13.9 (including Market Rule 7.10.1, see below) and Market Procedures developed by System Management; and
- report any alleged breaches of those provisions or Market Procedures to the IMO, in accordance with the Monitoring and Reporting Protocol.

If System Management becomes aware of an alleged breach of the Market Rules or Market Procedures as a result of its monitoring activities, then Market Rule 2.13.8 requires that it:

- record the alleged breach of the Market Rules or Market Procedures; and
- notify the IMO of the alleged breach in accordance with Market Rule 2.13.6 or, in the case of an alleged breach by the IMO, notify the person nominated by the Minister under Market Rule 2.13.1.

Market Rule 7.10

Market Rule 7.10.1 requires that Market Participants comply with their Resource Plans and Dispatch Instructions, although this obligation is subject to doing so not endangering the safety of a person, damaging equipment, or breaching an applicable law (Market Rule 7.10.2).

Further, under Market Rule 7.10.4 System Management is required to monitor the behaviour of Market Participants to assess whether they are complying with the obligation imposed by Market Rule 7.10.1.

Where a Market Participant deviates from its Resource Plans or Dispatch Instruction, and System Management considers the deviation:

- threatens Power System Security or Power System Reliability; or
- 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
- would require System Management to issue Dispatch Instructions to other Registered Facilities;

then Market Rule 7.10.5 requires that System Management warn the Market Participant about the deviation, and request an explanation and cessation of the behaviour, unless it has approved a testing plan as permitted under Market Rule 7.10.5A.

Where the Market Participant does not comply with System Management's request for an explanation and cessation of the behaviour, it must report the Market Participant's failure to comply with Market Rule 7.10.1 to the IMO.

Issue

System Management claims that a strict interpretation of Market Rule 2.13 and 7.10 would require it to report to the IMO alleged breaches even where these are trivial, insignificant or immaterial, and that doing so would impose a significant monitoring and reporting obligation that it considers was never intended by the Market Rules or by the Wholesale Electricity Market objectives.

Instead System Management has suggested that the realities of operating the South West Interconnected System (SWIS) in a secure and reliable manner on a day-to-day basis requires some flexibility, and that there are already a range of other settlement penalties (e.g. forced outage refunds, upwards and downwards deviation administered price) that incentivise Market Participants to comply with Resource Plans and Dispatch Instructions.

As a result, System Management notes that with the knowledge of the Rule Participants it has adopted a 'tolerance range' before reporting alleged breaches of Market Rules 7.10.1 and 2.13.6 to the IMO.

It is understood that the tolerance range adopted by System Management is the lesser of ten (10) megawatts (MW) or 50 per cent of a Facility's rated capacity, and that it:

- reports an alleged breach to the IMO in all instances where a Facility's deviation is outside the tolerance range threshold; but
- generally does not report an alleged breach to the IMO if a Facility's deviation is within the tolerance range (although it retains the discretion to do so).

It is understood that System Management's decision not report to the IMO every instance of an alleged breach of Market Rules 7.10.1 and 2.13.6 has been raised by its auditor as a potential non-compliance.

Rule Change Proposal

RC_2009_22 is intended to clarify System Management's reporting obligation by expressly allowing for the continued use of a tolerance range, which would act to eliminate the potential non-compliance. RC_2009_22 would also permit System Management to establish individual Facility Tolerance Range for individual registered Facility.

RC_2009_22 would require that System Management review each year the tolerance range and any individual Facility Tolerance Range.

Alinta's views

Alinta notes that many of the technical issues identified in its first round submission have been addressed. However, it considers that the following further amendments are necessary to the proposed amending rules.

- *New Market Rule 2.13.6D and E*

There appears to be an inconsistent reference in these new Market Rules to "determining" a Tolerance Range and "establishing" a Facility Tolerance Range. Alinta suggests that proposed Market Rule 2.13.6E be amended to permit System Management to "determine a Facility Tolerance Range".

- *New Market Rule 2.13.6G and K*

The basis on which System Management may annually review and then vary the Tolerance Range and any Facility Tolerance Ranges is not clearly specified.

Alinta suggests this could be addressed by amending proposed Market Rule 2.13.6K as follows:

System Management must document the procedure it follows in **for determining and reviewing** the annual Tolerance Range and any Facility Tolerance Ranges to apply for the purposes of clause 7.10.1 and clause 3.21 of the Market Rules in the Power System Operation Procedure and System Management and Market Participants must follow that documented Power System Operation Procedure.

Alinta retains reservations about the need for the extent of the amendments to the Market Rules proposed by RC_2009_22.

- *RC_2009_22 potentially does significantly more than simply eliminate the current non-compliance. It establishes a discretionary framework for establishing individual Facility Tolerance Ranges, the need for which has not been demonstrated by System Management.*
- *RC_2009_22 does not identify the basis on which individual Facility Tolerance Ranges might be established, and therefore creates significant regulatory uncertainty for Market Generators.*

The basis for how the Tolerance Range and any Facility Tolerance Ranges might be established are to be set out in an as yet to be developed Power System Operation Procedure.

While proposed new Market Rule 2.13F would prevent System Management from showing bias towards any Market Participant, there remains significant uncertainty around the manner in which it might exercise the discretion available to it under the amendments to the rules that would result from RC_2009_22.

- *In establishing individual Facility Tolerance Ranges, in addition to the existing single high-level 'tolerance range', RC_2009_22 has the potential to increase the administrative burden (and cost) faced by System Management. These costs would be expected to be passed through to Market Participants.*

Instead of a single high-level 'tolerance range' that currently applies to all facilities, System Management might be required to establish individual Facility Tolerance Ranges for at least 40 Facilities.

System Management would also need to develop, presumably in consultation with Market Generators, a Power System Operating Procedure with a transparent and consistent methodology for establishing Facility Tolerance Ranges. The process of developing this methodology and consultation with all Market Generators is of itself likely to impose a material cost on System Management.

In addition, the amendments to the rules contemplated by RC_2009_22 would require System Management to annually review the Tolerance Range and any Facility Tolerance Ranges and to consult with Market Participants. Again, these appear to be functions and processes that are not currently performed by System Management, and which could reasonably be expected to impose material costs.

While the Draft Rule Change Report indicates that additional administrative costs have been identified for both the IMO and System Management, the quantum of these costs has not been identified.

- *RC_2009_22 could reasonable be expected to result in additional costs for Market Generators in reviewing the (as yet, unspecified) Power System Operating Procedure and the Tolerance Range proposed by System Management.*

As noted above, it is expected that Market Participants would be consulted on the development of a Power System Operating Procedure for determining and reviewing a Tolerance Range and Facility Tolerance Ranges. These requirements are impositions on Market Participants that do not currently exist. In addition, it would be reasonable to expect that Market Participants would also closely monitor the Facility Tolerance Ranges established by System Management for other Market Participants.

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

Market Rule 2.4.2 states that 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 Wholesale Market Objectives are 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.
- (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.

Alinta considers that the IMO cannot be satisfied that the Market Rules, as proposed to be amended by RC_2009_22, would be consistent with the Wholesale Market Objectives.

As discussed in section 1, RC_2009_22 could reasonable be expected to result in a significant increase in the administrative burden (and cost) faced by System Management in establishing Facility Tolerance Ranges (compared to the existing single high level 'tolerance range'). These costs would be expected to be passed through to Market Participants.

In addition, RC_2009_22 could also reasonable be expected to result in additional costs for Market Participants in reviewing the (as yet, unspecified) Power System Operating Procedure and any Facility Tolerance Ranges proposed by System Management. Consequently, it appears RC_2009_22 is not consistent with Wholesale Market Objectives (a) and (d).

Alinta considers it unlikely that RC_2009_22 could reasonable be expected to better facilitate Wholesale Market Objectives (b), (c) and (e).

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 changes to the Market Rules contemplated by RC_2009_22 would not require Alinta to change its IT or business systems, and hence there are no IT or business costs associated with the rule change proposal.

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

The changes to the Market Rules contemplated by RC_2009_22 would not require Alinta to change its IT or business systems, and hence there is no specific period of time that would be required to implement the changes arising from the rule change proposal.