
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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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

System Management claims that RC_2009_22 will 'clarify' its reporting obligation by expressly allowing for the continued use of a tolerance range, which would act to eliminate the potential non-compliance.

However, RC_2009_22 goes much further than simply allowing for a continuation of System Management's current practise of using a single high-level 'tolerance range' to limit the reporting of alleged breaches of Market Rules 7.10.1 and 2.13.6.

Specifically, the amendments to the Market Rules contemplated by RC_2009_22 provide a very broad head of power allowing System Management to establish individual Facility Tolerance Range for each registered Facility that varies by:

- the time of the year;
- the time of the day;
- the Market Rule in question; and
- any other matter considered relevant by System Management for a Facility.

In addition, RC_2009_22 would require that System Management review each year the individual Facility Tolerance Range for every registered Facility and consult with each affect Facility (Market Generator).

Alinta's views

Alinta does not support RC_2009_22 as currently proposed. The reasons are as follows.

- *RC_2009_22 does significantly more than simply eliminate the current non-compliance. It establishes a broad reaching discretionary framework for establishing individual Facility Tolerance Ranges, the need for which has not been demonstrated by System Management.*

As noted previously, it is understood that the current tolerance range adopted by System Management is a single high-level 'tolerance range' being the lesser of 10MW or 50 per cent of a Facility's rated capacity.

In contrast, the rule change proposal would provide System Management with broad discretion to establish individual Facility Tolerance Range for each registered Facility that vary by the time of the year, the time of the day, the Market Rule in question and **any other matter considered relevant by System Management** for a Facility.

System Management has not demonstrated that an ability to apply only the tolerance range currently used would be inadequate to eliminate the non compliance.

- *RC_2009_22 fails to identify the basis on which individual Facility Tolerance Ranges might be established, and therefore creates significant regulatory uncertainty for Market Generators.*

System Management has not provided any transparency around **how** individual Facility Tolerance Ranges might be established. While proposed new Market Rule 2.13F would prevent System Management from showing bias towards any Rule Participant (Market Generator), there remains significant uncertainty around the manner in which it might exercise the broad discretion available to it under the amendments to the rules that would result from RC_2009_22.

For example, would Facilities that have historically seen greater deviations from Resource Plans or Dispatch Instructions be given a broader Facility Tolerance Range? To do so would assist in reducing the potential compliance burden for System Management, but would create potentially perverse incentives for Market Generators.

- *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 individual Facility Tolerance Ranges (compared to the existing single high-level 'tolerance range'). These costs would be expected to be passed through to Market Participants.*

It appears highly unlikely that RC_2009_22 would not impose additional costs on System Management (relative to current practices) as suggested in the Rule Change Proposal.

Instead of a single high-level 'tolerance range' that currently applies to all facilities, System Management could be required to establish individual Facility Tolerance Ranges for at least 40 Facilities. In addition, if a significant proportion of these tolerance ranges varied by time of day or year, the number of individual Facility Tolerance Ranges could easily exceed several hundred.

System Management would also need to develop, presumably in consultation with Market Generators, 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 is 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 individual Facility Tolerance Ranges for each Facility and to consult with affected Market Generators. 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.

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

As noted above, it is expected that Market Generators would be consulted on the development of a transparent and consistent methodology for establishing Facility Tolerance Ranges, and then annually on the setting of their individual Facility Tolerance Ranges. These requirements are impositions on Market Generators that do not currently exist. In addition, it would be reasonable to expect that Market Generators would also closely monitor the Facility Tolerance Ranges established by System Management for other Market Generators.

- *Issues with the current drafting of the proposed amendments.*

It would appear that the amendments to Market Rule 7.10.5 and the new Market Rule 7.10.5B proposed by RC_2009_22 would mean that System Management would no longer be required to request an explanation and cessation of the behaviour where a Market Participant's deviation from its Resource Plan or Dispatch Instruction was within the Facility Tolerance Range for the Facility but where the deviation threatened Power System Security or Power System Reliability.

Further, the Market Rules as proposed to be amended by RC_2009_22 would not make clear System Management's obligation where a deviation satisfied Market Rule 7.10.5 but fell within the Facility Tolerance Range established by System Management for that Facility.

The existing Market Rule 2.13.6 (and proposed new Market Rule 2.13.6A) refers generally to 'Market Procedures developed by System Management' whereas the proposed new Market Rule 2.13.6B in RC_2009_22 instead refers to the Power System Operating Procedures developed by System Management.

Potential alternative amendment

Alinta suggests that System Management's claimed objective, to eliminate the potential non-compliance, could be achieved much more simply as outlined below.

Amendments proposed by System Management are marked as follows: ~~deleted text~~, added text). Further amendments suggested by Alinta are marked as follows: ~~deleted text~~, added text).

Market Rule 2.13.6

System Management must monitor Rule Participants' behaviour for compliance with the provisions of the Market Rules referred to in clause 2.13.9 and Market Procedures developed by System Management. ~~System Management must report any alleged breaches of those provisions or Market Procedures to the IMO, in accordance with the Monitoring and Reporting Protocol.~~

New Market Rule 2.13.6A

Subject to clause 2.13.6B, System Management must report any alleged breaches of ~~these the~~ provisions of the Market Rules referred to in clause 2.13.9 or Market Procedures to the IMO, in accordance with the Monitoring and Reporting Protocol.

New Market Rule 2.13.6B

System Management is not required to report an alleged breach by a Rule Participant of the ~~provisions~~clauses of the Market Rules referred to in ~~Market Rule~~clause 2.13.9 or the ~~Power System Operation Market~~ Procedures developed by System Management to the IMO if:

- (a) the extent of the alleged breach is within the ~~Facility~~ Tolerance Range approved by the IMO; or
- (b) the breach is limited to occurring within a single Trading Interval; or
- (c) the alleged breach relates to clause 7.10.1 and is outside the Facility Tolerance Range, if:
 - i. the Rule Participant has notified System Management of a Forced Outage in accordance with clause 3.21.4 that is applicable to the period of the alleged breach; and
 - ii. the alleged breach relates to the Rule Participant generating at a level below its Resource Plan or the Dispatch Instruction applicable to the relevant Forced Outage period,

provided that nothing in this clause will relieve System Management of its obligation to report to the IMO any other alleged breach by a Rule Participant of clause 7.10.1.

New Market Rule 2.13.6C

Nothing in clause 2.13.6B relieves:

- (a) System Management from its obligation to monitor Rule Participants' ~~behaviour pursuant to clause 2.13.6~~ compliance with the provisions of the Market Rules referred to in clause 2.13.9 and Market Procedures developed by System Management; or
- (b) Rule Participants' from the obligation to fully comply with the ~~provisions of the~~ Market Rules and ~~Power System Operation Market~~ Procedures (including where any breach may be within the ~~Facility~~ Tolerance Range whether or not the alleged breach is reported by System Management).

New Market Rule 2.13.6D

System Management may ~~determine the Facility~~ propose to the IMO, and the IMO may approve, a Tolerance Range for the purpose of clause 2.13.6B. Before approving the Tolerance Range proposed by System Management, the IMO must consult Market Participants. ~~to apply to each Facility and for each relevant Market Rule or Power System Operation Procedures. System Management:~~

- ~~(a) — may review the Facility Tolerance Range from time to time and may change the Tolerance Range to apply to any one or more Facilities from time to time;~~
- ~~(b) — must not set a Facility Tolerance Range exceeding 50% of the Reserve Capacity for that Facility where the obligation relates to MW output;~~
- ~~(c) — may determine a different Facility Tolerance Range for a Facility based on one or more of the following factors:
 - ~~i. — the time of the year;~~
 - ~~ii. — the time of the day;~~
 - ~~iii. — the Market Rule in question; and~~
 - ~~iv. — any other matter considered relevant by System Management for a Facility;~~~~
- ~~(d) — must review the Facility Tolerance Range for a Facility at least yearly;~~
- ~~(f) — must consult with the affected Facility before publishing a Facility Tolerance Range; and~~
- ~~(g) — must submit the Facility Tolerance Range for each Facility to the IMO for publishing on the Market Web-site, including an effective date for the commencement of the Facility Tolerance Range, at least 14 Business Days prior to the date from which change to the Facility Tolerance Range becomes effective.~~

New Market Rule 2.13.6E, 2.13.6F and 2.13.6G

Deleted in their entirety.

Market Rule 2.13.8

If System Management becomes aware of an alleged breach of the provisions of the Market Rules referred to in clause 2.13.9 or ~~Power System Operation Market Procedures~~ as a result of its monitoring activities, then it must:

- (a) record the alleged breach of the Market Rules or Market Procedures; and
- (b) subject to clause 2.13.6B, notify the IMO of the alleged breach in accordance with clause 2.13.6 or, in the case of an alleged breach by the IMO, notify the person referred to in clause 2.13.1 in accordance with clause 2.13.5.

Market Rule 7.10.5

Subject to clause 7.10.5A, where 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. then clause 7.105B applies. 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.~~

New Market Rule 7.10.5B and 7.10.5C

Deleted in their entirety.

Market Rule 7.10.7

Where the Market Participant does not comply with the request referred to in clause 7.10.5, System Management:

- (a) may issue directions to the Market Participant in respect of the output of that Registered Facility, without regard for the Dispatch Merit Order, with the objective of minimising the dispatch deviations of the Facility;
- (b) unless the deviation is within the Tolerance Range, must report the failure to comply with request referred to in clause 7.10.5, to the IMO. As part of the report, System Management must include:
 - i. the circumstances of the failure to comply with clause 7.10.1 and the request referred to in clause 7.10.5;
 - ii. any explanation offered by the Market Participant as provided in accordance with clause 7.10.6A;
 - iii. whether System Management issued instructions to the Registered Facilities of the Electricity Generation Corporation or Registered Facilities covered by any Balancing Support Contract or Ancillary Service Contract or issued Dispatch Instructions to other Registered Facilities as a result of the failure; and
 - iv. an assessment of whether the failure threatened Power System Security or Power System Reliability.
- (c) if the deviation is within the Tolerance Range, may provide the report described in (b) to the IMO.

Chapter 11

Facility Tolerance Range: The quantity by which the availability, generation or demand of a Rule Participant, as measured by SCADA data or other information available to System Management, can deviate from each obligation imposed under the Market Rules before System Management must allege a breach, as determined under clause 2.13.6A.

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 individual 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 Generators in reviewing the (as yet, unspecified) methodology and the Facility Tolerance Range proposed by System Management for their facilities. 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.