



Draft Rule Change Report
Title: The use of tolerance levels by
System Management

Ref: RC_2009_22
Standard Rule Change Process

Date: 9 April 2010

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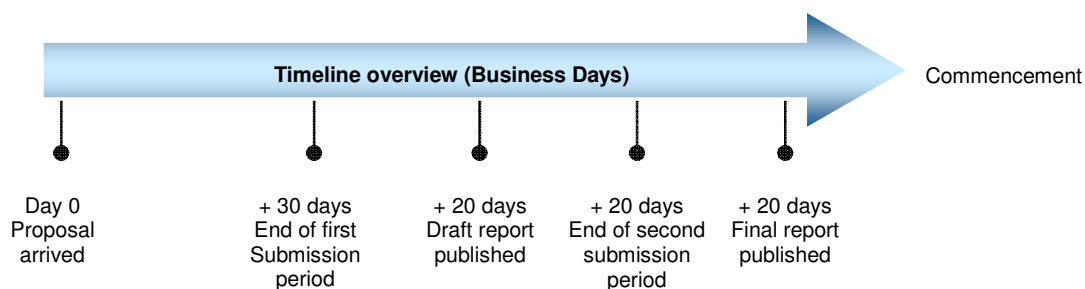
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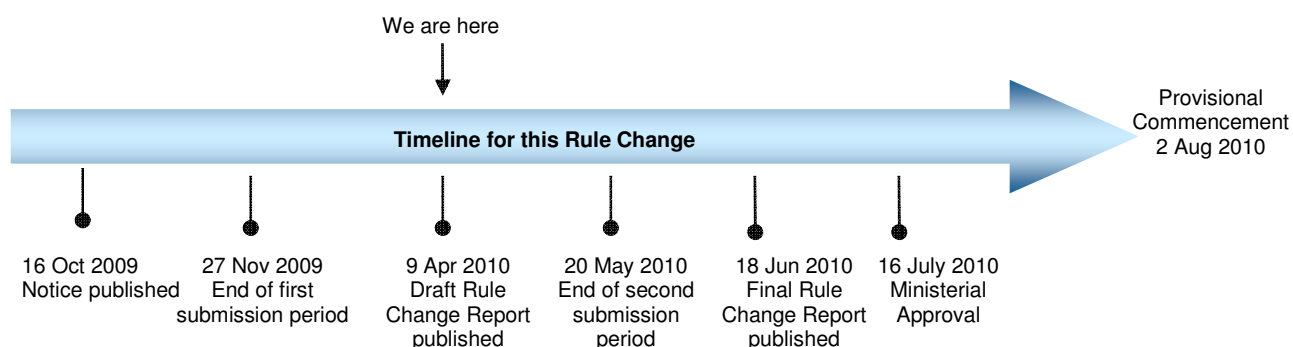
1. INTRODUCTION

On the 15 October 2009 System Management submitted a Rule Change Proposal regarding the amendment of clauses 2.13.6, 2.13.8, 7.10.5, and Chapter 11 and the proposed new clauses 2.13.6A, 2.13.6B, 2.13.6C, 2.13.6D, 2.13.6E, 2.13.6F, 2.13.6G, 2.13.6H, 7.10.5B, and 7.10.5C of the Wholesale Electricity Market Rules (Market Rules).

This proposal is being processed using the Standard Rule Change Process, described in section 2.7 of the Market Rules. The standard process adheres to the following timelines:



In accordance with clause 2.5.10 of the Market Rules the Independent Market Operator (IMO) decided to extend the timeframe for preparing the Draft Rule Change Report. Further details of the extension are available on the IMO website. The key dates in processing this Rule Change Proposal, as amended in the extension notice, are:



Please note the commencement date is provisional and may be subject to change in the Final Rule Change Report.

The IMO's draft decision is to accept the Rule Change Proposal in a modified form following the first submission period. The detailed reasons for the IMO's decision are set out in section 5 of this report.

In making its draft decision on the Rule Change Proposal, the IMO has taken into account:

- the Wholesale Market Objectives;
- the practicality and cost of implementing the proposal;
- the views of the Market Advisory Committee (MAC); and
- the submissions received.

All documents related to this Rule Change Proposal can be found on the IMO website: http://www.imowa.com.au/RC_2009_22.

2 CALL FOR SECOND ROUND SUBMISSIONS

The IMO invites interested stakeholders to make submissions on 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 5.00pm, **Thursday 20 May 2010**.

The IMO prefers to receive submissions by email (market.development@imowa.com.au) using the submission form available on the IMO website: <http://www.imowa.com.au/rule-changes>.

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

Independent Market Operator
 Attn: Manager Market Development and System Capacity
 PO Box 7096
 Cloisters Square, PERTH, WA 6850
 Fax: (08) 9254 4399

3. THE RULE CHANGE PROPOSAL

3.1 Submission Details

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Organisation:	System Management
Address:	
Date submitted:	15 October 2009
Urgency:	Standard Rule Change Process
Change Proposal title:	The use of tolerance levels by System Management
Market Rules affected:	2.13.6, new 2.13.6A, new 2.13.6B, new 2.13.6C, new 2.13.6D, new 2.13.6E, new 2.13.6F, new 2.13.6G, new 2.13.6H, 2.13.8, 7.10.5, new 7.10.5B , new 7.10.5C, Chapter 11

3.2 Summary details of the Proposal

System Management's Rule Change Proposal sought to:

- clarify its reporting obligations by expressly allowing for the use of a tolerance range when reporting any alleged breaches under clause 2.13.6 of the Market Rules, to the IMO; and
- amend its operational obligations around warning a Market Participant of an alleged breach of clause 7.10.1 and requesting an explanation and cessation of that behaviour if within the defined tolerance range.

System Management noted that given the significant differences between facilities in the South West interconnected system (SWIS) the proposal did not incorporate tolerances themselves; but rather detailed the process by which it would determine (and make transparent) each facility's tolerance. The proposed process would operate in a similar fashion to the way System Management currently determines the content of the

equipment list for the purposes of outage planning (refer clause 3.18.2 of the Market Rules).

Full details of the Rule Change Proposal are available in Appendix 1 of this report.

3.3 The Proposal and the Wholesale Market Objectives

System Management's assessment of the proposed changes against the Market Rules was 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;*

System Management considered that economic efficiency would be promoted by ensuring that significant and unnecessary compliance costs are not imposed on System Management, Rule Participants and the IMO. Economic efficiency will also be promoted by providing certainty and transparency for Rule Participants as to the role of System Management in using Tolerance Ranges.

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

System Management considered that a strict interpretation of the current provisions of the Market Rules would impose a significant and unnecessary compliance cost on Rule Participants which may discourage the entry of new competitors into the market. System Management contended that the proposed rule change will ensure that unnecessary compliance costs are not incurred by Rule Participants which will ensure that potential new entrants do not see unjustified compliance costs as a potential barrier to entry.

- 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.*

System Management considered that the proposed changes do not impact on, and therefore are consistent with, the operation of Market Objective (c).

- d) *to minimise the long-term cost of electricity supplied to customers from the South West interconnected system.*

A strict interpretation of the current provisions of the Market Rules will impose a significant and unnecessary compliance cost on System Management, Rule Participants and the IMO which may be passed on to consumers. System Management considered that the proposed change will ensure that significant and unnecessary administrative costs are not incurred by System Management, Rule Participants, and the IMO.

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

System Management considered that the proposed changes do not impact on, and therefore are consistent with, the operation of Market Objective (e).

3.4 Amending Rules proposed by System Management

The amendments to the Market Rules originally proposed by System Management are available in Appendix 2 of this report.

3.5 The IMO's Initial Assessment of the Proposal

The IMO determined to proceed with the proposal on the basis of its preliminary assessment, which indicated that the proposal was consistent with the Wholesale Market Objectives.

4. FIRST SUBMISSION PERIOD

The first submission period for this Rule Change Proposal was between 19 October 2009 and 27 November 2009.

4.1 Submissions received

The IMO received submissions from Alinta, Landfill Gas & Power (LGP), Synergy and Verve Energy. The main points raised in the submissions are noted below, additional detail along with the IMO's response is contained in section 4.3 of this paper. The full text of all submissions is available on the IMO website.

4.1.1 Submission from Alinta

Alinta does not support the Rule Change Proposal, noting that:

- The proposal goes much further than simply allowing for a continuation of System Management's current practice of using a single high-level 'tolerance range'¹.
- The proposal attempts to set out a broad reaching discretionary framework for establishing individual Facility Tolerance Ranges, the need for which has not been demonstrated by System Management. The Rule Change Proposal would provide System Management with discretion to establish individual Facility Tolerance Ranges 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.
- The proposal fails to identify the basis on which individual Facility Tolerance Ranges might be established, and therefore creates significant regulatory uncertainty for Market Generators.
- The proposal does not provide any transparency around how individual Facility Tolerance Ranges might be established. Alinta notes proposed new clause 2.13F would prevent System Management from showing bias towards any Rule Participant. Despite this, Alinta considers that significant uncertainty remains around the manner in which System Management might exercise the broad discretion available to it under the proposed amendments to the rules.

¹ Being the lesser of 10MW or 50 percent of a Facility's rated capacity

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- The proposal could reasonably 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. Alinta considers that it appears highly unlikely that the proposal would not impose additional costs on System Management (relative to current practices) as suggested. Alinta considers that System Management would incur costs associated with:
 - The development of a transparent and consistent methodology for establishing Facility Tolerance Ranges; and
 - Undertaking the proposed Facility Tolerance Range annual review process.
- The proposal could reasonably 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.

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.

Alinta noted the following issues with the current drafting of the proposed amendments:

- The amendments to clause 7.10.5 and the new clause 7.10.5B 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 but where the deviation threatened Power System Security or Power System Reliability.
- Further, the Market Rules as proposed to be amended would not make clear System Management's obligation where a deviation satisfied clause 7.10.5 but fell within the Facility Tolerance Range established by System Management for that Facility.
- The existing clause 2.13.6 (and proposed new clause 2.13.6A) refers generally to 'Market Procedures developed by System Management' whereas then proposed new clause 2.13.6B refers to the Power System Operating Procedures developed by System Management.

In its submission, Alinta proposes alternative Amending Rules to achieve a similar outcome. Further details are available in the full version of Alinta's submission, available on the IMO's webpage.

The IMO, Alinta and System Management met to discuss Alinta's suggestion further. The outcomes of this meeting are presented in section 4.3 of this report.

Wholesale Market Objectives

Alinta does not consider that the IMO could be satisfied that the Market Rules, as proposed to be amended, would be consistent with the Wholesale Market Objectives.

In particular, Alinta notes that the proposed changes could reasonably be expected to result in an increase in the administrative burden (and cost) faced by System Management and would likely place additional costs on Market Generators in reviewing the (as yet, unspecified) methodology and the Facility Tolerance Range proposed by

System Management for their facilities. Consequently, Alinta considers that the proposed changes appear to not be consistent with market objectives (a) and (d).

Alinta considers that it is unlikely that the proposed changes could be reasonably expected to better facilitate market objectives (b), (c) and (e).

4.1.2 Submission from Landfill Gas & Power

LGP offers qualified support for the Rule Change Proposal. While LGP supports the bulk of the proposal it is not persuaded that the proposed changes should go beyond traditional practice in respect of the assignment of tolerance levels. Rather than the elaborate process set out in proposed clause 2.13.6D, LGP advocates a reasonable approach based on the values traditionally used.

LGP note that a Resource Plan provides a required average MW value over a half hour period – and consequently, unreasonable instantaneous deviations are difficult to identify because the Resource Plan does not specify the required actual output of the Facility at any particular moment. If the emphasis is placed on complying with the delivery of a quantity of energy, it might be expected that a facility would seek to ‘catch up’ or ‘back off’ throughout a period, especially towards the end.

LGP supports the following principles:

- System Management should not be required to report to the IMO alleged breaches if they are trivial;
- System Management should be subject to only reasonable monitoring and reporting obligations;
- The Market Rules should be changed to reflect the long standing practices of System Management (and not the other way around). Such a change should not have an adverse impact on system security and reliability, or affect settlement outcomes nor constrain the ability of the IMO to investigate the behaviour of Market Participants;
- System Management should use a tolerance range in assessing whether a Market Participant is complying with its obligations; and
- System Management should be obligated to report only breaches that will or might have had a material impact on the system, or otherwise at its discretion.

LGP considers that economic efficiency will be promoted by the proposed amendments by avoiding significant and unnecessary compliance costs being imposed.

4.1.3 Submission from Synergy

Synergy supports the Rule Change Proposal which will clarify System Management’s reporting obligations.

Synergy considers that the proposed changes will provide greater transparency with regard to the monitoring and reporting of alleged breaches of Market Participants to the IMO.

Synergy notes that the current legal interpretation of clause 2.13.6 is that all alleged breaches, no matter how trivial, must be reported by System Management to the IMO. Synergy agrees with System Management’s current approach of implementing a tolerance range before reporting alleged breaches to the IMO. As such Synergy

supports the proposed changes which will give System Management greater clarity regarding its reporting obligations.

Synergy agrees that the proposed changes will be consistent with the Market Objectives (a), (b) and (d).

4.1.4 Submission from Verve Energy

Verve Energy supports the Rule Change Proposal, to clarify System Management's reporting obligation, by allowing the use of tolerance ranges. Verve Energy recognises the need for this change to effectively operate the system.

Verve Energy considers that the proposed changes will reduce the administrative burden on System Management's reporting obligations by eliminating the requirement to report minor breaches.

4.2 Public Forums and Workshops

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

4.3 The IMO's response to submissions received during the First Submission Period

During the first submission period a number of points were raised regarding System Management's proposed amendments to the Market Rules. The IMO's response to each of the issues is presented in the table over the page:

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Clause	Submitter	Comment/Change Requested	IMO's response
All	Alinta	The proposal does significantly more than simply eliminate the current non-compliance. In particular, the proposal establishes a broad reaching discretionary framework for establishing individual Facility Tolerance Ranges, the need for which has not been demonstrated by System Management.	<p>The proposed Amending Rules, as presented in section 5.5 of this report, have been changed to allow for the development of a generic Facility Tolerance Range, unless varied on a case by case basis for specific generation Facilities.</p> <p>This approach acknowledges the unique operational circumstances of individual Facilities and ensures that a one size fits all approach is avoided.</p>
All	Alinta	The proposal fails to identify the basis on which individual Facility Tolerance Ranges might be established, and therefore creates significant regulatory uncertainty for Market Generators.	<p>The proposed Amending Rules, as presented in section 5.5 of this report, have been expanded to:</p> <ul style="list-style-type: none"> ○ include a requirement on System Management to document the procedure it follows in determining the annual Tolerance Range and any Facility Tolerance Range in the Power System Operation Procedure. ○ allow tolerance ranges for specific facilities to be developed as an exception; and ○ require System Management to provide the reasons for any decision, following a request from a Rule Participant to vary the tolerance range to apply to its specific generation facility, to the IMO for publication. <p>This will provide transparency around the basis for System Management's decisions to vary the generic tolerance range for specific generation facilities.</p>
All	Alinta	The proposal could reasonably be expected to result in a significant increase in the administrative burden (and cost) faced by System Management. These costs would be expected to be passed through to Market Participants.	<p>The establishment of individual Facility Tolerance Ranges could potentially increase the administrative burden of System Management and the IMO in reviewing any tolerances, however the IMO does not consider that these costs will be significant. The IMO notes that the further proposed Amending Rules, as presented in section 5.5 of this report, will only allow a Facility Tolerance Range to be determined as an exception to the Tolerance Range, only when requested by a specific generation facility. This differs from the original proposal, in which tolerance ranges were proposed to be set for all facilities on an individual basis.</p>

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Clause	Submitter	Comment/Change Requested	IMO's response
All	Alinta	The proposal could reasonably be expected to result in additional costs for Market Generators.	The IMO agrees with Alinta that there could be increases in administrative burden to Market Generators. This point has been addressed in the further proposed Amending Rules, as presented in section 5.5, by allowing for a Facility Tolerance Range to be determined as an exception to the Tolerance Range, only when requested by a specific generation facility.
All	LGP	Supports the principle that System Management should use a tolerance range in assessing whether a Market Participant is complying with its obligations.	The intent of the proposed amendments is to simply amend System Management's reporting obligations associated with deviations by Market Participants from their Resource Plans or Dispatch Instructions. The proposed amendments will not impact of any assessment of whether a Market Participant is complying with its obligations nor will it change any Market Participants obligations for compliance with the Market Rules.
2.13.6 & 2.13.6B	Alinta	Existing clause 2.13.6 (and proposed new Market Rule 2.13.6A) refers generally to 'Market Procedures developed by System Management' whereas then proposed new Market Rule 2.13.6B in RC_2009_22 instead refers to the Power System Operating Procedures developed by System Management.	Clause 2.13.6B of the Amending Rules, as presented in section 5.5, has been updated to refer to the relevant "Power System Operating Procedures developed by System Management".
2.13.6D	LGP	Supports the bulk of the proposal however LGP is not persuaded that the proposed changes should go beyond traditional practice in respect of the assignment of tolerance levels. In particular, LGP suggests that rather than the elaborate process set out in clause 2.13.6D a more reasonable approach based on the values traditionally used should be adopted.	Following the first submission period responses, a simpler process has been developed, as set out in section 5.5 of this report.
7.10.5 & 7.10.5B	Alinta	The amendments to Market Rule 7.10.5 and the new Market Rule 7.10.5B 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.	The requirement for System Management to request an explanation and cessation of the behaviour where a Rule Participant is deviating from its Resource Plan or Dispatch Instruction has been reinstated in the further proposed Amending Rules, as presented in section 5.5.

4.4 Further Discussion of the proposed Amending Rules

The IMO facilitated a meeting between System Management and Alinta to discuss Alinta's proposed alternative method for allowing for tolerance ranges for compliance reporting in the Market Rules. The discussion focused on reviewing Alinta's proposed simplified method against the original proposal and determining an agreed simpler approach.

Alinta noted that the current approach adopted by System Management in determining tolerance ranges works for existing plants. Alinta considered that a one size fits all approach was appropriate, with the function of reviewing individual facility variations to be conferred to the IMO, should it be required.

System Management requested the IMO consider whether the Economic Review Authority (ERA) may be a more appropriate party to undertake this reviewing role.

The IMO met to discuss this issue further with the ERA prior to preparing this report. The ERA noted that the role of reviewing any Facility Tolerance Ranges determined by System Management may potentially compromise its role in undertaking the annual review of the effectiveness of the Wholesale Electricity Market required under clause 2.16.11 of the Market Rules. It was agreed that the role of reviewing Facility Tolerance Ranges would fit more appropriately within the IMO's administrative duties.

System Management and Alinta agreed to develop proposed Amending Rules to allow for the following simplified process:

- System Management to develop a general tolerance range to apply for all facilities. This is for the purposes of its reporting obligations associated with clause 7.10.1 and operational obligations associated with clause 7.10.5;
- Variation of the general tolerance range must be subject to adequate justification;
- System Management to publish reasons for any variations in the general tolerance range; and
- Review of variations in the tolerance range to be undertaken by the IMO.

System Management and Alinta developed revised proposed Amending Rules and submitted to the IMO for consideration. This is contained in Appendix 3 of this report.

5. THE IMO'S ASSESSMENT

In preparing its Draft Rule Change Report, the IMO must assess the Rule Change Proposal in light of clauses 2.4.2 and 2.4.3 of the Market Rules.

Clause 2.4.2 outlines 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*".

Additionally, clause 2.4.3 states, when deciding whether to make Amending Rules, the IMO must have regard to the following:

- Any applicable policy direction from the Minister regarding the development of the market;

- The practicality and cost of implementing the proposal;
- The views expressed in submissions and by the MAC; and
- Any technical studies that the IMO considers necessary to assist in assessing the Rule Change Proposal.

The IMO notes that there has not been any applicable policy direction from the Minister in respect of this Rule Change Proposal.

The IMO’s assessment is outlined in the following sections.

5.1 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 Wholesale Market Objective (a) and (b):

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

The proposed changes may encourage greater economic efficiency by promoting the allocative efficiency of System Management and IMO resources and potentially reducing transaction costs. In particular, the IMO considers that reporting every deviation to a Resource Plan could be a burdensome outcome which would be costly to the market overall and may not improve system security or reliability.

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

The greater certainty and reduced likelihood of differential treatment of participants may remove a barrier to entry into the market.

The IMO however disagrees with System Management's assessment that the proposed amendments will lead to a reduction in other Rule Participants compliance costs and therefore reduce a barrier to entry into the market. This is because the proposed changes will simply apply a tolerance range around System Management's reporting obligations associated with clause 7.10.1 and System Management's operational obligations to request a Market Generator move back to its Resource Plan under clause 7.10.5. Neither of these proposed changes will amend Market Generators requirements to adhere to the Market Rules.

The IMO considers that the proposed changes are consistent with market objectives (c), (d) and (e).

5.2 Practicality and Cost of Implementation

Cost:

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 however been administrative costs identified for both the IMO and System Management relating to the new process set out in the Amending Rules.

As the proposed amendments will simply change System Management's reporting obligations around clause 7.10.1 and operational obligations around clause 7.10.5, there have been no identified changes to other Rule Participant's compliance costs.

Practicality:

In making its assessment of the Rule Change Proposal the IMO must have regard to the practicality of implementing the proposal. The IMO has not identified any issues with the practicality of implementing the proposed changes.

5.3 Market Advisory Committee

The MAC discussed the proposal at a number of meetings:

- 10 June 2009: Pre Rule Change Discussion Paper;
- 14 October 2009: Pre Rule Change Discussion Paper;
- 11 November 2009: Rule Change Proposal;
- 9 December 2009: Rule Change Proposal;
- 10 February 2010: Rule Change Proposal; and
- 10 March 2010: Rule Change Proposal.

An overview of the discussion from the various MAC meetings is presented below. Further details are available in the MAC meeting minutes available on the IMO website:

<http://www.imowa.com.au/market-advisory-committee>

June 2009 MAC meeting

System Management first presented the Pre Rule Change Discussion paper at the 10 June 2009 MAC meeting. System Management outlined its proposal for MAC members.

In response to the proposal the MAC noted:

- Concern with the lack of certainty and clarity regarding System Management's powers, noting that the proposal goes beyond what System Management currently do. In particular, it was noted that power, where the level of governance is unclear, is problematic.
- That a pragmatic solution needs to be determined and that discretion may be appropriate but that this needs to be a well governed process with specific in-built assurance devices to ensure Market Participants are treated equitably.

System Management responded that there would be transparency because the values would be published and Market Participants would be able to request reconsideration.

- That a tolerance (for settlement purposes) was already built into the Market Rules. It was questioned whether the inclusion of an additional tolerance should be in line with this already well accepted tolerance.

In response, System Management stated that:

- for real time monitoring, a tolerance of 30MW is used;
- for ex-post monitoring, a tolerance of 10MW is used; and
- the settlement tolerance contained in the Market Rules is too small for its purposes.

October 2009 MAC meeting

During the 14 October 2009 meeting, System Management presented an updated proposal. This was in light of the concern noted by the MAC at the June 2009 meeting around the lack of certainty and clarity regarding System Management's powers

There was considerable discussion and divergent views on the Rule Change Proposal. The following points were raised by MAC members regarding the further changes to the proposal made by System Management:

- The IMO asked System Management to confirm that it is also developing a procedure for setting the tolerance ranges. System Management agreed to consider this further.
- Synergy stated that a procedure containing these details would be an appropriate step and that building in the review mechanism is also appropriate. Synergy noted that the transparency aspects of the Rule Change Proposal should be there to protect System Management as well as Market Participants.

- The IMO noted that, as currently proposed, it might be difficult to make a decision on System Management's assessment. In response, System Management noted that a participant would provide the IMO with all the information necessary, as it would be in its interest to do so.
- Alinta queried why the rule change was necessary. Alinta noted that, in its view, this is an administrative issue relating to technical non-compliance with the Market Rules and that there was no evidence that the current approach adopted by System Management doesn't work. Alinta stated that the proposed solution to this problem goes above and beyond that necessary and is therefore unnecessary given that the current approach works. Alinta considered that it is unlikely that the process could not have any related costs as suggested by System Management in its proposal.
- Alinta suggested that the rules should be amended simply to reflect the current process (as this is widely accepted by Market Participants). System Management noted that, while the current process has worked so far, it may not continue to work if there is a change in the number of new generators coming into the system.
- Verve Energy suggested that the process could be covered in a Market Procedure. The IMO noted that it does not consider that this was appropriate and would create obligations above and beyond those contained in the Market Rules.
- The IMO suggested that tolerances could be specified for facilities classified into blocks by type and size (similar to the allocation of spinning reserve costs outlined in Appendix 2 of the Market Rules), which would eliminate any concerns with the level of discretion being granted by the proposed changes. System Management noted that this may add a further level of complexity.
- Alinta questioned whether the additional complexity resulting from the Pre Rule Change Proposal was justified given the problem that the proposal was trying to address.

To conclude the discussion held at the meeting, it was noted that there are differing views around what this rule change achieves. In particular, there were issues associated with the driver of the change and the whether the proposed outcome is appropriate. The MAC noted that if System Management wishes to progress the Rule Change Proposal further it will not impede this process any further unless there are other suggestions from members.

Alinta offered to provide System Management and the IMO with an alternative to the proposal. System Management noted that it would consider Alinta's alternative approach.

System Management formally submitted its proposal on 15 October 2009. As such, Alinta's alternative solution was presented in a submission during the first submission period. For additional detail see section 4.4 of this paper.

November 2009 MAC meeting

The MAC noted the Rule Change Proposal at the 11 November 2009 meeting.

December 2009 MAC meeting

The MAC noted the Rule Change Proposal at the 9 December 2009 meeting.

February 2010 MAC meeting

Subsequent to the IMO's assessment of first submission period responses, the IMO raised the following points at the 10 February 2010 MAC meeting:

- In its Rule Change Proposal to allow for tolerances to be applied to its reporting obligations the IMO considers that System Management did not clearly identify the proposed changes as applying to Forced Outages (as well as Resource Plan Deviations).
- System Management considers that this is implied in the drafting of the proposal.
- the IMO has discussed this with all submitting parties and determined that this was not clearly articulated to the market.
- The IMO is therefore unclear if this rule change extends to allowing for a reporting tolerance for System Management around Forced Outages.

The MAC agreed that the IMO should extend the timeframes for publication of the Draft Rule Change Report and bring the proposed drafting of the Amending Rules to MAC for further discussion at the next meeting.

March 2010 MAC meeting

At the 10 March 2010 meeting, the IMO recapped the points noted at the 10 February 2010 meeting. This was regarding the inclusion of Forced Outages in System Management's proposed reporting tolerances and advised the MAC that it had since met with System Management to develop amended drafting to include a Forced Outage reporting tolerance. The IMO specifically requested the MAC's advice on whether reporting tolerances for Forced Outages should be covered and the IMO's proposed treatment of this issue in the Draft Rule Change Report.

Alinta noted that the IMO's recap of the situation was consistent with its understanding of the situation. Alinta noted that it was comfortable with the IMO's recommendation to include a reporting tolerance for Forced Outages in the Draft Rule Change Report and request specific comment on this inclusion during the second submission period.

At the meeting, the MAC:

- agreed that the intent of the original Rule Change Proposal did not explicitly allow a reporting tolerance to apply for Forced Outages;
- did not note any concerns with extending System Management's reporting tolerances to also cover Forced Outages; and
- agreed that the IMO should include a tolerance for Forced Outage reporting in the Draft Rule Change Report and specifically request comments on this during the second submission period.

5.4 Views Expressed in Submissions

The IMO received three submissions in favour of and one submission not supporting the Rule Change Proposal during the first submission period. In particular, LGP, Synergy and Verve Energy were generally supportive of the proposal on the grounds that it clarifies System Management's reporting obligations.

Alinta does not support the Rule Change Proposal in that it went much further than simply allowing for a continuation of System Management's current practice of using a single high-level "tolerance range" to limit the reporting of alleged breaches of clause 7.10.1 and 2.13.6 of the Market Rules.

The IMO has responded to each of the issues raised in sections 4.3 of this report.

Prior to preparing the Draft Rule Change Report, the IMO also facilitated a discussion between Alinta and System Management to determine an appropriate process for setting tolerance ranges for compliance reporting.

5.5 Additional Amendments

The IMO has undertaken an assessment of the proposed Amending Rules:

- originally provided by System Management (outlined in Appendix 2);
- suggested by Alinta in its submission (available on the IMO's webpage); and
- developed by System Management and Alinta prior to the publication of the Draft Rule Change Report (outlined in section 5.5 of this paper).

Following this assessment the IMO considers that further changes to the proposed Amending Rules are required in order to achieve the intent of the Rule Change Proposal. In particular, the IMO considers that a simpler approach for determining tolerances for System Management's reporting of alleged breaches of clause 7.10.1 of the Market Rules should be incorporated.

Additionally, the IMO considers that further clarification of the Amending Rules to refer specifically to determining a tolerance range to apply to System Management's reporting obligations of 7.10.1 rather than of System Management's monitoring obligations under clause 2.13.9 of the Market Rules. The IMO has also made a number of minor and typographical changes to improve the overall integrity of the proposed Amending Rules.

The IMO has extended the drafting to allow for a tolerance around System Management's obligation to report Forced Outages (the addition of "or/and clause 3.21" in the appropriate rules). In accordance with the advice of the MAC, the IMO wishes to invite specific submissions on whether reporting tolerances should be applied to System Management's reporting obligations associated with Forced Outages.

These additional changes are outlined in Appendix 4 of this report.

6. THE IMO'S DRAFT DECISION

The IMO's draft decision is to accept the amendment of clauses 2.13.6, 2.13.7, 2.13.8, 7.10.7, and the new clauses 2.13.6A, 2.13.6B, 2.13.6C, 2.13.6D, 2.13.6E, 2.13.6F, 2.13.6G, 2.13.6H, 2.13.6I, 2.13.6J, 2.13.6K, and the glossary of the Market Rules. This is as proposed in the Rule Change Proposal and amended following the first submission period.

The IMO notes that the changes proposed allow for a tolerance regarding System Management's reporting obligations and do not change a Market Participant's compliance obligations. Evidence presented by System Management to support the rule change suggests that there may be further underlying issues associated with the strict requirement for Resource Plan compliance by Market Participants. The IMO considers that there may be merit in undertaking a closer assessment of Market Participant's compliance obligations under clause 7.10.1.

6.2 Reasons for the decision

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

- Will allow the Market Rules to better address Wholesale Market Objectives (a) and (b);
- Are consistent with the remaining Wholesale Market Objectives;
- Have the general support of the MAC; and
- Have the general support of the majority of submissions received during the first submission period.

Additional detail outlining the analysis behind the IMO's reasons is outlined in section 5 of this Draft Rule Change Report.

7. PROPOSED AMENDING RULES

Subject to the outcomes of submissions received during the second submission period, particularly with regard to the extension of the proposal to also provide for a reporting tolerance for System Management around Forced Outages, the IMO proposes to implement the following amendments to the Market Rules (~~deleted words~~, added words):

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~~ the Power System Operation 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 the provisions of the Market Rules referred to in clause 2.13.9 or the Power System Operation 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 Market Participant of clause 7.10.1 or clause 3.21 of the Market Rules to the IMO if:

- (a) the extent of the alleged breach is either within the Tolerance Range established under clause 2.13.6D or the Facility Tolerance Range established under clause 2.13.6E; or
- (b) the alleged breach is limited to occurring within a single Trading Interval; or
- (c) in the case of an alleged breach of clause 7.10.1, the alleged breach is outside the Tolerance Range or Facility Tolerance Range, as applicable, where :
 - 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.

New Market Rule 2.13.6C

Nothing in clause 2.13.6B relieves:

- (a) System Management from its obligation to monitor Rule Participants' compliance with the provisions of the Market Rules referred to in clause 2.13.9 and the Power System Operation Procedures developed by System Management;
- (b) System Management of its obligation to report to the IMO any alleged breach by a Market Participant of clause 7.10.1 or clause 3.21 not covered under clause 2.13.6B; or
- (c) Rule Participants from the obligation to fully comply with the Market Rules and Power System Operation Procedures, regardless of whether System Management is required under the Market Rules to report any alleged breach to the IMO.

New Market Rule 2.13.6D

System Management may determine the Tolerance Range to apply to all Facilities for the purposes of System Management's reporting of alleged breaches of clause 7.10.1 and clause 3.21 to the IMO under clause 2.13.6A. When determining the appropriate Tolerance Range to apply for all Market Participants, System Management must:

- (a) consult with Rule Participants prior to setting the Tolerance Range; and
- (b) submit to the IMO for publication on the Market Web Site at least 14 Business Days prior to the date from which change to the Tolerance Range becomes effective, the following:
 - i. all submissions received from Rule Participants;
 - ii. the Tolerance Range; and
 - iii. an effective date for the commencement of the Tolerance Range.

New Market Rule 2.13.6E

System Management may establish a Facility Tolerance Range to apply to a specific generation Facility for the purposes of System Management's reporting of alleged breaches of clause 7.10.1 and clause 3.21 to the IMO under clause 2.13.6A.. A Facility Tolerance Range will apply for a specific generation Facility in place of the Tolerance Range determined under clause 2.13.6D. When determining the Facility Tolerance Range to apply for the specific generation Facility, System Management must:

- (a) consult with Market Participants prior to setting the Facility Tolerance Range; and
- (b) submit to the IMO for publication on the Market Web Site at least 14 Business Days prior to the date from which any changes to the Facility Tolerance Range become effective the following:
 - i. the reasons for System Management's decision;
 - ii. any submissions received from Market Participants;
 - iii. the applicable Facility Tolerance Range; and
 - iv. an effective date for the commencement of the applicable Facility Tolerance Range.

New Market Rule 2.13.6F

System Management must not show bias towards a-Market Participant in respect to the Facility Tolerance Range.

New Market Rule 2.13.6G

System Management must review the Tolerance Range and any Facility Tolerance Ranges at least annually. System Management may vary the Tolerance Range and any Facility Tolerance Ranges following this review.

New Market Rule 2.13.6H

A Market Participant may request in writing that the IMO reassess a Facility Tolerance Range for that Market Participant's Facility. Once such a request is made in writing:

- (a) the IMO must consult with System Management and the Market Participant concerning the Facility Tolerance Range;
- (b) the IMO may give a direction to System Management to vary a Facility Tolerance Range where it finds that:
 - i. System Management has not followed the relevant Market Rules or any relevant Power System Operation Procedures in determining the Facility Tolerance Range; or
 - ii. the IMO deems, based on the information provided by the Market Participant and System Management, that the Facility Tolerance Range is not reasonable.
- (c) the IMO must use best endeavours to complete the assessment within 10 Business Days from receipt of the request.

New Market Rule 2.13.6I

Where the IMO makes a direction under clause 2.13.6H that direction will apply until the Tolerance Range or Facility Tolerance Range, as applicable, is varied in accordance with clause 2.13.6G.

New Market Rule 2.13.6J

The IMO must publish all information provided pursuant to clauses 2.13.6D and 2.13.6E on the Market Web Site within 5 Business Days of receipt.

New Market Rule 2.13.6K

System Management must document the procedure it follows in determining 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.

Market Rule 2.13.7

System Management must ensure it has processes and systems in place to allow it to monitor Rule Participants' behaviour in accordance with clauses 2.13.6 and 2.13.6A.

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 the Power System Operation Procedures as a result of its monitoring activities, then it must:

- (a) record the alleged breach of the provisions of the Market Rules referred to in clause 2.13.9 or Market Procedures the Power System Operation 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; or
- (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; and
- (d) is outside the Tolerance Range determined in accordance with clause 2.13.6D or a Facility Tolerance Range determined in accordance with clause 2.13.6E;

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

Where clause 7.10.5 applies, it is deemed to apply for the entire Trading Interval.

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 the request referred to in clause 7.10.5, to the IMO. ~~As part of the report,~~ System Management must include in the report:
 - 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 a report to the IMO containing the same information as specified in subclause (b).

Chapter 11

Tolerance Range: The amount, determined by System Management under clause 2.13.6D of the Market Rules, by which a Market Participant may deviate from the obligations imposed on it under clause 7.10.1 or clause 3.21 before System Management must report an alleged breach of that clause under clause 2.13.6A.

Facility Tolerance Range: The amount, determined by System Management under clause 2.13.6E (c) of the Market Rules in relation to a specific Facility, by which a Market Participant may deviate from the obligations imposed on it under clause 7.10.1 or clause 3.21 before System Management must report an alleged breach of that clause under clause 2.13.6A.

APPENDIX 1: FULL DETAILS OF THE PROPOSAL

Background

A Rule Participant must comply with the provisions of the Market Rules referred to in clause 2.13.9. Market Rule 2.13.6 requires System Management to monitor and report alleged breaches by a Rule Participant of the Market Rules to the IMO. Since the market began, System Management has, with the knowledge of Rule Participants, implemented a tolerance range before reporting alleged breaches to the IMO. The proposed Market Rule changes will clarify System Management's reporting obligation by expressly allowing for the use of a tolerance range.

This Rule Change Proposal involves changes to clauses 2.13 and 7.10, which will provide guidance for, and increase the transparency of, activities of System Management.

Market Rule 2.13

On a strict literal interpretation of Market Rule 2.13, System Management might be required to report to the IMO alleged breaches even if they are trivial, insignificant or completely immaterial. This interpretation is overly legalistic and does not take into account the realities associated with operating the South West interconnected system (SWIS) in a secure and reliable manner on a day to day basis, nor any other settlement penalties (forced outage refunds, upwards and downwards deviation administered price, for example) which might otherwise be applicable.

The monitoring and reporting obligations that a strict literal interpretation would produce are substantial and System Management does not believe that it is the intention of the Market Rules or the Wholesale Electricity Market objectives to produce this outcome.

Since the market began, System Management has, with the knowledge of the Rule Participants, implemented a tolerance range before reporting the alleged breaches as follows:

- (a) if a Rule Participant's compliance is outside the tolerance range threshold then System Management must report the alleged breach to the IMO; and
- (b) if a Rule Participant's compliance is within the tolerance range then System Management may (or may not) report the alleged breach to the IMO.

The proposed Market Rule changes will clarify System Management's reporting obligation by expressly allowing for the use of a tolerance range.

Market Rule 7.10

The proposed Market Rule changes will clarify System Management's reporting obligation in respect of Market Rule 7.10.1 by expressly allowing System Management to consider whether a Rule Participant is generating at a level above or below its Resource Plan or Dispatch Instruction when using a tolerance range.

Since the market began, System Management has, with the knowledge of Rule Participants, implemented a tolerance range in respect of alleged breaches of Market Rule 7.10.1 as follows:

- (a) if the alleged breach is within the tolerance range then System Management may (or may not) report the alleged breach to the IMO;
- (b) if the alleged breach is outside the tolerance range and it relates to the Rule Participant generating at a level above its Resource Plan or Dispatch Instruction, then System Management must report the alleged breach to the IMO; and
- (c) if the alleged breach is outside the tolerance range and it relates to the Rule Participant generating at a level below its Resource Plan or Dispatch Instruction, and the Rule Participant has logged a Forced Outage then System Management may (or may not) report the alleged breach to the IMO.

Market Rule 7.10.5 requires System Management to warn a Rule Participant in certain circumstances when the Rule Participant is in alleged breach of Market Rule 7.10.1. Since the market began, System Management has, with the knowledge of the Rule Participants, only warned a Rule Participant of an alleged breach when the Rule Participant's compliance is outside the tolerance range threshold. This reflects the fact that a Resource Plan provides a required average MW value over a half hour – therefore “real-time” deviations are difficult to identify because the Resource Plan does not indicate the actual output of the Facility at any particular moment. However, a strict and literal reading of Market Rule 7.10.5 requires System Management to warn a Rule Participant even when the Rule Participant's alleged breach is within the tolerance range, which would impose a substantial monitoring and reporting obligations on System Management.

The proposed Market Rule changes will clarify System Management's obligations in respect of Market Rule 7.10.5 by expressly stating that System Management is not obliged to issue a warning to a Rule Participant if the Rule Participant's alleged breach is within the tolerance range.

Summary

The proposed Market Rule change will clarify System Management's reporting obligations by expressly allowing for the use of a tolerance range. Given the significant differences between facilities in the SWIS it is not proposed to incorporate tolerances themselves within the rule change; rather, the tolerance will be determined (and made transparent) by System Management in a similar fashion to the way System Management currently determines the content of the equipment list for the purposes of outage planning (refer clause 3.18.2 of the Market Rules).

System Management submits that this rule change will ensure consistency between the Market Rules and the long standing practices of System Management and will not have an adverse impact upon system security or reliability. In addition, the rule change will not affect settlement outcomes nor constrain the ability of the IMO to investigate behaviour which might not be reported to the IMO under the tolerance regime.

APPENDIX 2: PROPOSED AMENDING RULES IN THE RULE CHANGE PROPOSAL

System Management proposed the following amendments to the Market Rules in its Rule Change Proposal (~~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 those provisions 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 clauses of the Market Rules referred to in Market Rule 2.13.9 or the Power System Operation Procedures developed by System Management to the IMO if:

- (a) the extent of the alleged breach is within the Facility Tolerance Range; 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; or
- (b) Rule Participants' from the obligation to fully comply with the provisions of the Market Rules and Power System Operation 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 Tolerance Range 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;
 - ii. 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

The IMO must publish any Facility Tolerance Range information within 5 Business Days of being provided that information by System Management.

New Market Rule 2.13.6F

System Management must not show bias towards a Rule Participant in respect to the Facility Tolerance Range.

New Market Rule 2.13.6G

A Rule Participant may request, in writing, that the IMO reassess a Facility Tolerance Range for that Rule Participant's Facility. Once such a request is made in writing:

- (a) the IMO must consult with System Management and the Rule Participant concerning the Facility Tolerance Range;

- (b) the IMO may give a direction to System Management to vary a Facility Tolerance Range where it finds that:
- i. System Management has not followed the Market Rules or the Power System Operation Procedure in determining the Facility Tolerance Range; or
 - ii. The IMO deems, based on the information provided by the Rule Participant, that the Facility Tolerance Range is not reasonable.
- (c) the IMO must complete the assessment within 10 Business Days from receipt of the request.

New Market Rule 2.13.6G

Where the IMO makes a direction under clause 2.13.6G, that direction will apply until the next review occurs as per clause 2.13.6D.

Market Rule 2.13.8

If System Management becomes aware of an alleged breach of the Market Rules referred to in clause 2.13.9 or Power System Operation 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.

New Market Rule 7.10.5B

If clause 7.10.5 applies, provided that the behaviour does not fall within the Facility Tolerance Range for that Facility, System Management must

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

Market Rule 7.10.5C

Where clause 7.10.5B applies, it is deemed to apply for the entire Trading Interval.

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.

APPENDIX 3: PROPOSED REVISED AMENDING RULES FROM SYSTEM MANAGEMENT AND ALINTA

System Management and Alinta proposed the following revised amendments to the Market Rules following the first submission period, see section 4.4 of this paper for more detail (~~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~~ Power System Operating Procedures developed by System Management.

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 Power System Operating 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 ~~clauses provisions~~ of the Market Rules referred to in ~~Market Rule clause~~ 2.13.9 or the ~~Power System Operation~~ Operating Procedures developed by System Management to the IMO if:

- (a) the extent of the alleged breach is within the ~~Facility Tolerance Range established under clause 2.13.6D or Facility Tolerance Range established under clause 2.13.6E~~; 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 or Facility Tolerance Range, as applicable~~, 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 Power System Operating 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 Operating 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 Tolerance Range to apply to each Facility and for each relevant Market Rule or Power System Operation Procedures. System Management must:

- ~~(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.~~
- (a) consult with Market Participants prior to setting the Tolerance Range;
- (b) review the Tolerance Range at least yearly; and
- (c) submit the Tolerance Range and all submissions received from Market Participants to the IMO for publication on the Market website, including an effective date for the commencement of the Tolerance Range, at least 14 Business Days prior to the date from which change to the Tolerance Range becomes effective.

New Market Rule 2.13.6E

~~The IMO must publish any Facility Tolerance Range information within 5 Business Days of being provided that information by System Management.~~

System Management may vary the Tolerance Range and establish a Facility Tolerance Range for a specific generation facility. System Management must:

- (a) consult with Market Participants prior to setting the Facility Tolerance Range;
- (b) review the Facility Tolerance Range at least yearly;
- (c) provide reasons for the Facility Tolerance Range;
- (d) System Management must not show bias towards a Market Participant in respect to the Facility Tolerance Range; and
- (e) submit the Facility Tolerance Range, applicable reasons and submissions received from affected Market Participants to the IMO for publication on the Market website, 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 2.13.6F

~~System Management must not show bias towards a Rule Participant in respect to the Facility Tolerance Range.~~

The IMO must publish all information provided to it pursuant to clauses 2.13.6D and 2.13.6E.

New Market Rule 2.13.6G

A ~~Rule~~ Market Participant may request, in writing, that the ~~IMO~~ ERA reassess a ~~Facility Tolerance Range or Facility Tolerance Range~~ for that ~~Rule~~ Market Participant's Facility. Once such a request is made in writing:

- (a) the ~~IMO~~ ERA must consult with System Management and the ~~Rule~~ Market Participant concerning the ~~Facility Tolerance Range or Facility Tolerance Range~~;
- (b) the ~~IMO~~ ERA may give a direction to System Management to vary a Facility Tolerance Range where it finds that:
 - i. System Management has not followed the Market Rules or the Power System Operation Procedure in determining the ~~Facility Tolerance Range or Facility Tolerance Range~~; or
 - ii. The ~~IMO~~ ERA deems, based on the information provided by the ~~Rule~~ Market Participant, that the Facility Tolerance Range is not reasonable.
- (c) the ~~IMO~~ ERA must complete the assessment within 10 Business Days from receipt of the request.

Note that System Management and Alinta raised queries regarding whether the ERA or would be a better suited party to undertaking any reassessment of a Tolerance Range or Facility Tolerance Range. Subsequent to System Management and Alinta providing the IMO with their further suggested drafting, the IMO held discussions with the ERA around this point. It was agreed that the role would fit more appropriately within the IMO's administrative duties.

New Market Rule 2.13.6H

Where the ~~IMO~~ ERA makes a direction under clause 2.13.6G, that direction will apply until the ~~next review occurs as per clause 2.13.6D~~ Tolerance Range or Facility Tolerance range, as applicable, is varied.

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 the Power System Operation Operating Procedures as a result of its monitoring activities, then it must:

- (a) record the alleged breach of the Market Rules or the Power System Operating 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;

~~then clause 7.10.5B 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

If clause 7.10.5 applies, provided that the behaviour does not fall within the Facility Tolerance Range for that Facility, System Management must

- (d) warn the Market Participant about the deviation; and
- (e) request an explanation for the deviation; and
- (f) request cessation of the behaviour within a time that System Management considers reasonable.

Market Rule 7.10.5C

Where clause 7.10.5B applies, it is deemed to apply for the entire Trading Interval.

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 Market~~ 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. The Tolerance Range applies to each Facility, unless varied pursuant to clause 2.13.6E.

Facility Tolerance Range: Has the meaning given in clause 2.13.6E.

APPENDIX 4: ADDITIONAL AMENDMENTS MADE BY THE IMO FOLLOWING ITS ASSESSMENT

The IMO has made some amendments to the Amending Rules following its assessment of the first submission period responses and the additional amendments proposed by System Management and Alinta. For further detail on these amendments see section 5.5 of this paper.

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~~ the Power System Operation 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 ~~those~~ the provisions of the Market Rules referred to in clause 2.13.9 or Market Procedures ~~the Power System Operation 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 Market Participant of the clauses 7.10.1 or clause 3.21 of the Market Rules referred to in Market Rule 2.13.9 or the Power System Operation Procedures developed by System Management~~ to the IMO if:

- (a) the extent of the alleged breach is either within the Facility Tolerance Range established under clause 2.13.6D or the Facility Tolerance Range established under clause 2.13.6E; or
- (b) the alleged breach is limited to occurring within a single Trading Interval; or
- (c) in the case of an alleged breach of clause 7.10.1, the alleged breach relates to ~~clause 7.10.1~~ and is outside the ~~Facility Tolerance Range or Facility Tolerance Range, as applicable, where~~ 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 the Power System Operation Procedures developed by System Management;
- (b) System Management of its obligation to report to the IMO any alleged breach by a Market Participant of clause 7.10.1 or clause 3.21 not covered under clause 2.13.6B; or
- (c) Rule Participants from the obligation to fully comply with the Market Rules and Power System Operating Procedures, (including where any breach may be within the Tolerance Range or Facility Tolerance Range whether or not the alleged breach is reported by System Management) regardless of whether System Management is required under the Market Rules to report any alleged breach to the IMO.

New Market Rule 2.13.6D

System Management may determine the Facility Tolerance Range to apply to ~~each~~-all Facilities for the purposes of System Management's reporting of alleged breaches of clause 7.10.1 and clause 3.21 to the IMO under clause 2.13.6A, and relevant Market Rules or Power System Operation Procedures. When determining the appropriate Tolerance Range to apply for all Market Participants, System Management must:

- (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.~~
- (a) consult with Market Participants prior to setting the Tolerance Range; and

- (b) submit to the IMO for publication on the Market Web Site at least 14 Business Days prior to the date from which change to the Tolerance Range becomes effective, the following:
- i. all submissions received from Market Participants;
 - ii. the Tolerance Range; and
 - iii. an effective date for the commencement of the Tolerance Range.

New Market Rule 2.13.6E

~~The IMO must publish any Facility Tolerance Range information within 5 Business Days of being provided that information by System Management.~~

System Management may establish a Facility Tolerance Range to apply to a specific generation Facility for the purposes of System Management's reporting of alleged breaches of clause 7.10.1 and clause 3.21 to the IMO under clause 2.13.6A. A Facility Tolerance Range will apply for a specific generation Facility in place of the Tolerance Range determined under clause 2.13.6D. When determining the Facility Tolerance Range to apply for the specific generation Facility, System Management must:

- (a) consult with Rule Participants prior to setting the Facility Tolerance Range; and
- (b) submit to the IMO for publication on the Market Web Site at least 14 Business Days prior to the date from which any changes to the Facility Tolerance Range become effective the following:
 - i. the reasons for System Management's decision;
 - ii. any submissions received from Rule Participants;
 - iii. the applicable Facility Tolerance Range; and
 - iv. an effective date for the commencement of the applicable Facility Tolerance Range.

New Market Rule 2.13.6F

System Management must not show bias towards a ~~Rule~~Market Participant in respect to the Facility Tolerance Range.

New Market Rule 2.13.6G

~~A Rule Participant may request, in writing, that the IMO reassess a Facility Tolerance Range for that Rule Participant's Facility. Once such a request is made in writing:~~

- (a) ~~the IMO must consult with System Management and the Rule Participant concerning the Facility Tolerance Range;~~
- (b) ~~the IMO may give a direction to System Management to vary a Facility Tolerance Range where it finds that:~~
 - i. ~~System Management has not followed the Market Rules or the Power System Operation Procedures in determining the Facility Tolerance Range; or~~

- ii. ~~the IMO deems, based on the information provided by the Rule Participant, that the Facility Tolerance Range is not reasonable.~~
- (c) ~~the IMO must complete the assessment within 10 Business Days from receipt of the request.~~

System Management must review the Tolerance Range and any Facility Tolerance Ranges at least annually. System Management may vary the Tolerance Range and any Facility Tolerance Ranges following this review.

New Market Rule 2.13.6H

~~Where the IMO makes a direction under clause 2.13.6G, that direction will apply until the next review occurs as per clause 2.13.6D~~

A Market Participant may request in writing that the IMO reassess a Facility Tolerance Range for that Market Participant's Facility. Once such a request is made in writing:

- (a) the IMO must consult with System Management and the Market Participant concerning the Facility Tolerance Range;
- (b) the IMO may give a direction to System Management to vary a Facility Tolerance Range where it finds that:
 - ii. System Management has not followed the relevant Market Rules or any relevant Power System Operation Procedures in determining the Facility Tolerance Range; or
 - ii. the IMO deems, based on the information provided by the Market Participant and System Management, that the Facility Tolerance Range is not reasonable.
- (c) the IMO must use best endeavours to complete the assessment within 10 Business Days from receipt of the request.

New Market Rule 2.13.6I

Where the IMO makes a direction under clause 2.13.6H that direction will apply until the Tolerance Range or Facility Tolerance Range, as applicable, is varied in accordance with clause 2.13.6G.

New Market Rule 2.13.6J

The IMO must publish all information provided pursuant to clauses 2.13.6D and 2.13.6E on the Market Web Site within 5 Business Days of receipt.

New Market Rule 2.13.6K

System Management must document the procedure it follows in determining 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.

Market Rule 2.13.7

System Management must ensure it has processes and systems in place to allow it to monitor Rule Participants' behaviour in accordance with clauses 2.13.6 and 2.13.6A.

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 the Power System Operation Procedures as a result of its monitoring activities, then it must:

- (a) record the alleged breach of the provisions of the Market Rules referred to in clause 2.13.9 or Market Procedures the Power System Operation 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; or
- (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; and
- (d) is outside the Tolerance Range determined in accordance with clause 2.13.6D or a Facility Tolerance Range determined in accordance with clause 2.13.6E;

~~then clause 7.10.5B 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

~~If clause 7.10.5 applies, provided that the behaviour does not fall within the Facility Tolerance Range for that Facility, System Management must~~

- ~~(a) warn the Market Participant about the deviation; and~~
- ~~(b) request an explanation for the deviation; and~~
- ~~(c) request cessation of the behaviour within a time that System Management considers reasonable,~~

Where clause 7.10.5 applies, it is deemed to apply for the entire Trading Interval.

Market Rule 7.10.5C

Where clause 7.10.5B applies, it is deemed to apply for the entire Trading Interval.

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 the request referred to in clause 7.10.5, to the IMO. ~~As part of the report,~~ System Management must include in the report:
 - 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 a report to the IMO containing the same information as specified in subclause (b).

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, amount, determined by System Management under clause 2.13.6D of the Market Rules, by which a Market Participant can~~ from each obligation imposed under clause 2.13.9 of the Market Rules may deviate from the obligations imposed on it under clause 7.10.1 or clause 3.21 before System Management must report an alleged a breach of that clause, as determined under clause 2.13.6A.

Facility Tolerance Range: The amount, determined by System Management under clause 2.13.6E (c) of the Market Rules in relation to a specific Facility, by which a Market Participant may deviate from the obligations imposed on it under clause 7.10.1 or clause 3.21 before System Management must report an alleged breach of that clause under clause 2.13.6A.