



Draft Rule Change Report

Title: Bilateral Submission Window

Ref: RC_2010_10
Standard Rule Change Process

Date: 26 July 2010

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DOCUMENT DETAILS

IMO Notice No.: RC_2010_10
Report Title: Draft Rule Change Report: Bilateral Submission Window
Release Status: Public
Confidentiality Status: Public domain

http://www.imowa.com.au/RC_2010_10

Published in accordance with Market Rule 2.7.6

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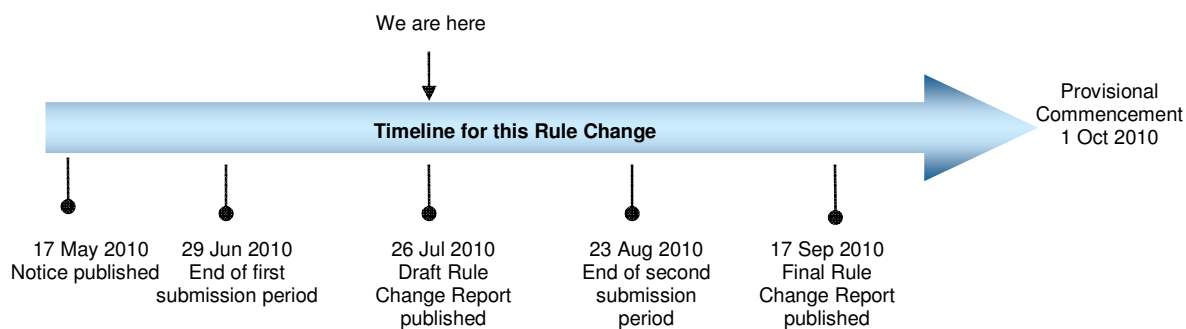
1. INTRODUCTION

On 17 May 2010 Verve Energy submitted a Rule Change Proposal regarding amendments to clause 6.4.6 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:



The key dates in processing this Rule Change Proposal are:



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

The draft decision is to implement the Rule Change Proposal in the form outlined in section 7 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_2010_10.

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, **Monday 23 August 2010**.

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

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

Independent Market Operator
 Attn: General Manager Development
 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:	Verve Energy
Address:	GPO Box F366, Perth WA 6841
Date submitted:	17 May 2010
Urgency:	Standard Rule Change Process
Change Proposal title:	Bilateral Submission Window
Market Rule affected:	6.4.6

3.2 Summary details of the Proposal

Verve Energy proposed that the timelines for the Bilateral Submission window and the publication of Bilateral Submission quantities be added to the set of timelines that can be delayed by up to two hours in the event of an IMO system failure.

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

3.3 The Proposal and the Wholesale Market Objectives

Verve Energy submitted that the proposed changes would allow the Market Rules to better address Wholesale Market Objectives (a) and indirectly (b) and (d).

a) to promote the economically efficient, safe and reliable production and supply of electricity and electricity related services in the South West interconnected system;

Verve Energy considered that by design, Bilateral Contracts cover most of the sales in the Wholesale Electricity Market. Inaccurate Bilateral Submissions will lead to inaccurate STEM Offers and STEM Bids. This will result in STEM prices not reflective of the expected system load and generation cost.

3.4 Amending Rules proposed by Verve Energy

The amendments to the Market Rules proposed by Verve Energy are presented in section 7 of this report.

3.5 The IMO's Initial Assessment of the Proposal

The IMO decided to proceed with this proposal on the basis that Market Participants should be given an opportunity to provide submissions as part of the rule change process.

4. FIRST SUBMISSION PERIOD

The first submission period for this Rule Change Proposal was between 18 May 2010 and 29 June 2010.

4.1 Submissions received

The IMO received submissions from Landfill Gas & Power (LGP), Perth Energy and Synergy. The full text of the submissions is available on the IMO website.

The submissions received all support the Rule Change Proposal. LGP considers the proposed amendments correct a manifest error in the Market Rules. Perth Energy suggests that the current situation could lead to sub-optimal outcomes as Bilateral Submissions may not reflect the most recent and best available information. Perth Energy supports the proposal being expedited as quickly as possible to ensure that the IMO has the same flexibility to manage the Bilateral Submission Window as currently exists within the STEM, balancing and fuel submission processes.

Synergy agrees with Verve Energy that allowing more time for Market Generators to finalise their Bilateral Submissions will ensure that STEM prices are more reflective of the conditions anticipated for the Trading Day.

LGP, Perth Energy and Synergy agree with Verve Energy that the proposed changes better address Wholesale Market Objective (a).

No issues were raised in the submissions.

4.2 Public Forums and Workshops

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

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 or any technical studies commissioned 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

5.2 Practicality and Cost of Implementation

Cost: The proposed amendments will require minor changes to the IMO's Operational Procedures. The update costs fall within the IMO's normal operating budget.

The proposed amendments do not require any change to the Wholesale Electricity Market Systems operated by the IMO or any of the systems operated by System Management. In addition there have been no identified changes to other Rule Participants' costs.

Practicality: 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 the 12 May 2010 MAC meeting. An overview of the MAC discussion 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>

May 2010 MAC meeting

Ms Wendy Ng of Verve Energy presented the Pre Rule Change Discussion Paper to MAC members.

Ms Ng noted that the objective of the proposal is to allow the IMO to delay closure of the Bilateral Submission window and publication of Bilateral Submission quantities, in the same manner as is currently permitted for other events in the Scheduling Day. Ms Ng noted that a recent IMO IT System Outage had prevented Verve Energy from being able to make a Bilateral Submission that accurately reflected its contract position.

The Chair noted the previous perception that the Bilateral Submission window did not require extension because Bilateral Submissions were more flexible than STEM Submissions or Resource Plans. The Chair considered that this perception now appeared to be incorrect and that closer to real time changes are a feature of WEMS trading. Mr McKay expressed support for Verve Energy's proposal.

The MAC supported the progression of the Rule Change Proposal.

5.4 Views Expressed in Submissions

The IMO received three submissions during the first submission period, all supporting the Rule Change Proposal. No issues were raised in the submissions.

6. THE IMO'S DRAFT DECISION

The IMO's draft decision is to accept the amendments to clause 6.4.6 as proposed in the Rule Change Proposal. The proposed amendments are outlined in section 7 of this report.

6.1 Reasons for the decision

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

- are consistent with the Wholesale Market Objectives;
- have the support of the MAC; and
- are supported by all the 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

The IMO proposes to implement the following amendments to the Market Rules (~~deleted text~~, added text):

- 6.4.6. In the event of a software system failure at the IMO site or its supporting infrastructure, which prevents the IMO from completing the relevant processes, the IMO may extend one or more of the timelines prescribed in sections 6.2, 6.3A, 6.3B and this section 6.4, subject to:
- (a) any such extension not resulting in more than two hour delay to any of the timelines prescribed in sections 6.2, 6.3A, 6.3B and this section 6.4; and

- (b) any such extension maintaining 50 minute window between the timelines prescribed in 6.3B.1(a) and 6.3B.1(b) as extended by the IMO;

and the IMO must advise Rule Participants of any such extension as soon as practicable.

APPENDIX 1: FULL DETAILS OF THE PROPOSAL

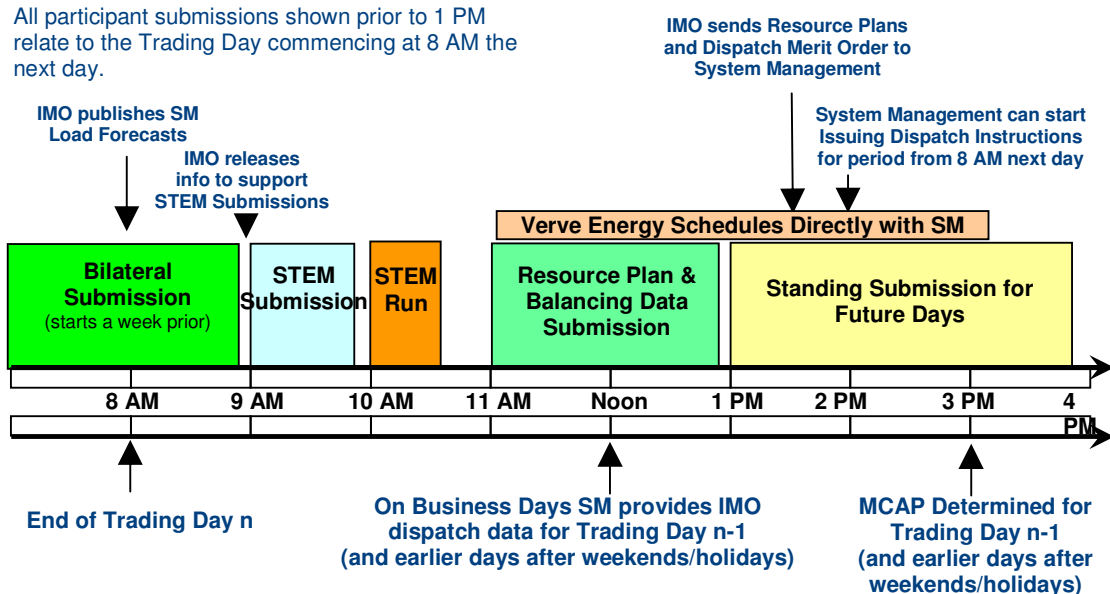
Background

In its proposal Verve Energy noted that chapter 6 of the Market Rules prescribes a strict timetable for the events leading up to the start of each Trading Day. Under normal circumstances, Market Generators are able to make Bilateral and STEM submissions in accordance with that timetable. Verve Energy noted that by inference, to facilitate those submissions, the IMO must, for each Trading Day:

- open the Bilateral Submission window at 8:00 AM on the day one week prior to the Scheduling Day, and ending at 8:50 AM on the Scheduling Day (clause 6.2.1);
- open the STEM Submission window between 9:00 AM and 9:50 AM on the Scheduling Day (clause 6.3B.1);
- run the STEM Auction and publish the results to participants between 10:00 AM and 10:30 AM on the Scheduling Day (clauses 6.4.1, 6.4.2 and 6.4.3);
- open the Resource Plan and Balancing Data Submission windows between 11:00 AM and 12:50 PM on the Scheduling Day (clauses 6.5.1 and 6.5A.1); and
- determine the Dispatch Merit Orders and provide System Management with Resource Plans, Dispatch Merit Orders and Fuel Declarations by 1:30 PM on the Scheduling Day (clauses 6.12.1, 7.4.1 and 7.5.1).

Verve Energy presented the following diagram to summarise this timeline:

Key Events in the Energy Market



All times are in Western Standard Time

To assist participants with their submissions, Verve Energy noted that the IMO publishes several reports during the Scheduling Day. These reports are also published according

to a strict timetable, with different reports due by 8:00 AM, 8:30 AM, 9:00 AM, 9:05 AM and 9:30 AM on the Scheduling Day (clauses 6.2.3, 6.2.8 and 6.3A).

Issue

In the event of an IMO system failure, Verve Energy noted that clause 6.4.6 allows the IMO to extend one or more of the timelines prescribed in clauses 6.3A, 6.3B and 6.4 for up to two hours. Clauses 6.5.1, 6.5A.1 and 7.4.1 allow these extensions to flow through to the deadlines for the Resource Plan and Balancing Data Submission windows, the IMO determination of the Dispatch Merit Order and the provision of Resource Plans to System Management.

However, Verve Energy stated that the Market Rules do not permit the IMO to delay the closing of the Bilateral Submission window in the event of an IMO system failure. There is also no provision to delay the publication of Bilateral Submission quantities to Market Participants (clauses 6.2.3 and 6.2.8).

Verve Energy considered that it is beneficial to the market to have the STEM outcome as reflective of the conditions on the Trading Day as possible. Market Participants could thus firm up their bilateral contract quantities as late as possible to take into consideration better assessment of demand and plant performance expected for the Trading Day a day ahead. Verve Energy noted that this means that despite the length of the Bilateral Submission window (seven days and 50 minutes) the IMO would expect Bilateral Submissions to be firmed up closer to the close of the Bilateral Submission window. Thus, if the IMO experiences a system failure just prior to the window closure, a Market Generator may be unable to make an updated Bilateral Submission that accurately reflects its final contract position.

Verve Energy noted that the problem affects the accuracy of the Bilateral Submission quantities for both the Market Generator and its Bilateral Contract partners. This inaccuracy will then result in STEM prices not reflective of the conditions expected for the Trading Day. Verve Energy considered that this STEM outcome will affect most Market Participants. Further, Verve Energy considered that any attempts to compensate through adjustments to STEM submissions are complex, prone to error and, if incorrect, may have unforeseen impacts on the calculation of STEM clearing prices.

Proposal

Verve Energy proposed that the timelines for the Bilateral Submission window and the publication of Bilateral Submission quantities be added to the set of timelines that can be delayed by up to two hours in the event of an IMO system failure.