



**Independent Market Operator**

**Final Rule Change Report:  
Bilateral Submission Window**

**Ref: RC\_2010\_10**

**Date: 17 September 2010**



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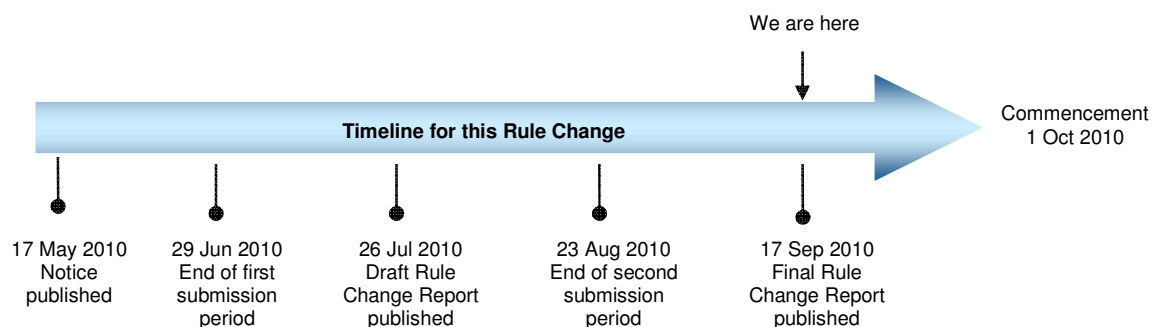
## 1. INTRODUCTION

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).

The proposal was 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:



The IMO's final decision is to accept the Rule Change Proposal in a modified form. The detailed reasons for the IMO's decision are set out in section 7 of this report.

In making its final 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](http://www.imowa.com.au/RC_2010_10)

## 2. THE RULE CHANGE PROPOSAL

### 2.1 Submission Details

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<b>Date submitted:</b>	17 May 2010
<b>Urgency:</b>	Standard Rule Change Process
<b>Change Proposal title:</b>	Bilateral Submission Window
<b>Market Rule affected:</b>	6.4.6

### 2.2 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.

### 2.3 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.

### 2.4 The Amending Rules Proposed by Verve Energy

The amendments to the Market Rules proposed by Verve Energy are presented in Appendix 2 of this report.

### 2.5 The IMO's Initial Assessment of the Proposal

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

## 3. FIRST SUBMISSION PERIOD

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

### **3.1 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 supported the Rule Change Proposal. LGP considered the proposed amendments correct a manifest error in the Market Rules. Perth Energy suggested 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 supported 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 agreed 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 agreed with Verve Energy that the proposed changes better address Wholesale Market Objective (a).

No issues were raised in the submissions.

### **3.2 Public Forums and Workshops**

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

## **4. THE IMO'S DRAFT ASSESSMENT**

The IMO's draft assessment, against clauses 2.4.2 and 2.4.3 of the Market Rules, and analysis of the Rule Change Proposal can be viewed in the Draft Rule Change Report (available on the IMO's website).

## **5. THE IMO'S DRAFT DECISION**

Based on the matters set out in the Draft Rule Change Report, the IMO's draft decision, in accordance with clause 2.7.7(f), was to accept the proposed amendments to clause 6.4.6.

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

- are consistent with the Wholesale Market Objectives;
- have the support of the MAC; and
- were supported by all the submissions received during the first submission period.

## **6. SECOND SUBMISSION PERIOD**

Following the publication of the Draft Rule Change Report on the IMO website, the second submission period was between 27 July 2010 and 23 August 2010.

### **6.1 Submissions received**

The IMO received a second submission from Synergy. The full submission is available on the IMO website.

In summary, Synergy continues to support the Rule Change Proposal, considering that the proposed changes will better facilitate the achievement of Wholesale Market Objective (a). Synergy recommends that the closure time for the Bilateral Submission window be provided by the IMO web services interface.

### **6.2 The IMO's response to submissions received during the second submission period**

The IMO sought clarification from Synergy on the recommendation contained in its second submission. Synergy advised that it would like the ability, if there is a delay in the closure of the Bilateral Submission window due to an IMO system failure, to request information through the IMO's web services interface to determine the new closure time. Synergy suggested that this functionality could also be provided for other Scheduling Day windows, such as the STEM Submission window. Synergy reiterated its support for the Rule Change Proposal.

The IMO notes Synergy's recommendation and agrees that a web service providing up to date window closure times is likely to be of benefit to participants. The IMO will register this suggestion so that it can be considered for prioritisation against other suggested enhancements to the IMO's systems.

### **6.3 Additional Amendments to the Amending Rules**

Following the second public submission period, the IMO made some additional changes to the proposed Amending Rules, to correct minor errors in clause 6.4.6.

These changes are as follows (~~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 a 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 a 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.

## **7. THE IMO'S FINAL ASSESSMENT**

In preparing its Final 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 nor has it commissioned a technical review in respect of this Rule Change Proposal.

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

### 7.1 *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

### 7.2 *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.

There may be future costs associated with the web services enhancements recommended by Synergy. However, this IT change is not needed for the Rule Change Proposal to commence. The suggestion will be included in the IMO’s IT Roadmap for future development.

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.

### **7.3 Views expressed in submissions**

The IMO received three submissions during the first submission period and one submission during the second submission period, all supporting the Rule Change Proposal.

In the second submission period Synergy recommended an enhancement to the IMO's IT systems, to allow a participant to retrieve up to date Bilateral Submission window closure times via a defined web service. The IMO's response to this recommendation is available in section 6.2 of this report.

### **7.4 Views expressed by the Market Advisory Committee**

The MAC discussed the proposal at the 12 May 2010 MAC meeting and noted the proposal at the 16 June 2010, 11 August 2010 and 8 September 2010 meetings. 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.

## **8. THE IMO'S FINAL DECISION**

Based on the matters set out in this report, the IMO's final decision, in accordance with clause 2.7.8 (e), is to accept the Rule Change Proposal as modified by the amendments specified in section 6.3 of this report.

### **8.1 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 in the first and second submission periods.

Additional detail outlining the analysis behind the IMO's decision is outlined in section 7 of this Final Rule Change Report.



## 9. AMENDING RULES

### 9.1 Commencement

The amendments to the Market Rules resulting from this Rule Change Proposal will commence at **8.00am** on **1 October 2010**.

### 9.2 Amending Rules

The IMO's final decision is to amend the Market Rules. The following clauses are amended (~~deleted wording~~, new wording):

- 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 a 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 a 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

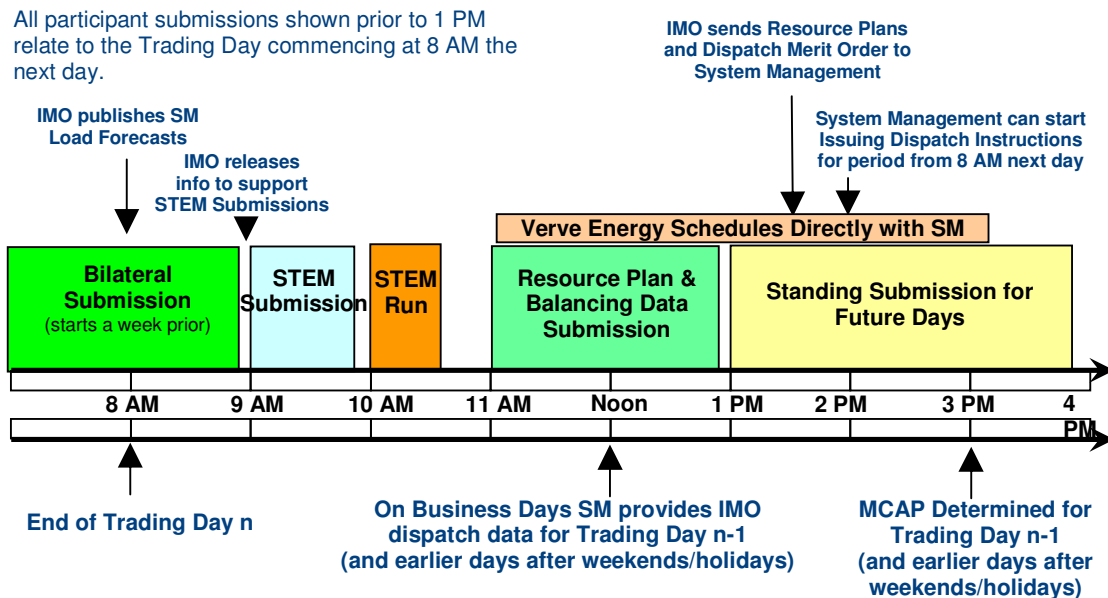
### Background

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



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.

## APPENDIX 2: PROPOSED AMENDING RULES IN THE RULE CHANGE PROPOSAL

Verve Energy proposed the following amendments to the Market Rules in its Rule Change Proposal (~~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.