
Wholesale Electricity Market - Pre Market Rule Change Discussion Paper

Submitted by

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| Address: | Level 22, Forest Centre, 221 St Georges Tce, Perth WA 6000 |
| Date submitted: | TBA |
| Urgency: | High |
| Change Proposal title: | STEM Timeline Flexibility |
| Market Rule(s) affected: | Inclusion of a new clause 6.4.6 |

Introduction

Market Rule 2.5.1 of the Wholesale Electricity Market Rules provides that any person (including the IMO) may make a Rule Change Proposal by completing a Rule Change Proposal Form that must be submitted to the Independent Market Operator.

This Change Proposal can be posted, faxed or emailed to:

Independent Market Operator

Attn: Dora Guzeleva, Manager Market Administration
PO Box 7096
Cloisters Square, Perth, WA 6850

Fax: (08) 9420 5755

Email: dora.guzeleva@imowa.com.au

The Independent Market Operator will assess the proposal and, within 5 Business Days of receiving this Rule Change Proposal form, will notify you whether the Rule Change Proposal will be further progressed.

In order for the proposal to be progressed, all fields below must be completed and the change proposal must explain how it will enable the Market Rules to better contribute to the achievement of the wholesale electricity market objectives. The objectives of the market are:

- (a) to promote the economically efficient, safe and reliable production and supply of electricity and electricity related services in the South West interconnected system;
- (b) to encourage competition among generators and retailers in the South West interconnected system, including by facilitating efficient entry of new competitors;
- (c) to avoid discrimination in that market against particular energy options and technologies, including sustainable energy options and technologies such as those that make use of renewable resources or that reduce overall greenhouse gas emissions;
- (d) to minimise the long-term cost of electricity supplied to customers from the South West interconnected system; and
- (e) to encourage the taking of measures to manage the amount of electricity used and when it is used.

Details of the proposed Market Rule Change

1. Outline the issue concerning the existing Market Rules that is to be addressed by the proposed Market Rule change:

The IMO experience in operating the Wholesale Electricity Market has revealed that the rigid timeframes within the Market Rules applying to the daily Short Term Energy Market (STEM) processes can lead to market suspension even where this is not necessary for operational purposes.

Since the start of energy trading in the Market, there have been three suspensions arising due to IMO system issues and the inability to open the STEM submission windows in time to meet the requirements in the Market Rules.

This proposal is to introduce, where necessary, some flexibility into the STEM timelines in Chapter 6 of the Market Rules in the event of IMO system issue. The purpose is to minimise the possibility of a STEM suspension only due to the rigid timelines, in cases where some flexibility in the opening and closing windows would enable STEM to be cleared instead of suspended.

Under the current Chapter 6, the IMO is required to:

- Determine and publish STEM supporting information by 9:00 AM including:
 - Outage schedules
 - Ancillary service amounts
 - Participant limits
 - Facility Limits
- Open the STEM submission window by 9:00 AM
- Close the STEM submission window by 9:50 AM
- Run the STEM auction between 10:00 AM and 10:30 AM.

The Rules require that the IMO suspend the STEM if no valid STEM results can be produced in accordance with the STEM auction timelines.

In accordance with the IMO Operational Contingency Procedures if any party intended to submit a STEM offer, but failed to do so in time due to an IMO system issue, the STEM result is invalid and the STEM should be suspended for that trading day.

Meeting the STEM timelines in the Rules ensures that the Resource Plan window can open at 11:00AM and that the Dispatch Merit Order for System Management can be determined at an early point in the day. However, through discussions with System Management in mid 2006, it was determined that the Dispatch Merit Order can be provided later in emergency situations.

These discussions resulted in a rule change to clause 6.5.1(b), implemented in September 2006, that allows the IMO to delay the Resource Plan submission window closing time until 15:00 PM if system issues prevent a Participant from submitting a Resource Plan before the 12:50 PM closing time prescribed in the Rules. However, this rule change only considered the Resource Plan submissions, not the STEM submissions.

It is proposed that similar timeline extensions be permitted for timelines related to the STEM in system emergency situations. This would mean that, if system issues occur at any point during the process, the IMO would have the discretion to delay all remaining processes for up to two hours before the STEM is suspended. This would allow Participants to submit STEM submissions for the relevant trading day, instead of the IMO having to suspend the STEM.

It should be noted that delays to the relevant timelines would only be introduced in the presence of IMO system issues, which prevent the IMO from completing the STEM processes and would otherwise lead to a STEM suspensions. The IMO will be required by the proposed changes to the Rules to immediately advise all participants if a system issue is likely to lead to a delay in any of the STEM timelines.

In addition, the rule change to clause 6.5.1(b), implemented in September 2006, which allowed the IMO to delay the Resource Plan submission window closing time, did not consider that similar flexibility is required for the Balancing Data Submission window and the determination of the Dispatch Merit Order.

Resource Plan submissions and Balancing Data Submissions are made in accordance with the same timeframes and system issues will impact similarly on both of these processes. The Dispatch Merit Order cannot be prepared before the Balancing Data Submissions window is closed. It is, therefore, both consistent and important to align these processes with any changes to the closing times for the Resource Plan submissions window.

2. Explain the reason for the degree of urgency:

To promote efficient market operation, it is important that measures are available and taken to avoid suspension of the STEM. Providing flexibility to amend the STEM timelines would assist in avoiding market suspension, during events where system issues prevent the IMO from completing the STEM processes within the normal timelines.

3. Provide any proposed specific changes to particular Rules:

The following new clause is proposed to be included in Chapter 6 of the Rules:

6.4.6. In the event of a software system failure at the IMO site, which prevents the IMO from completing the relevant processes, the IMO may extend one or more of the timelines prescribed in sections 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 6.3A, 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 Market Participants any such extension as soon as practicable.

In addition, the following amendments to clauses 6.5A.1 and clause 6.12.1 are proposed to correct an oversight when a rule change to clause 6.5.1(b) was implemented in September 2006, allowing the IMO to delay the Resource Plan submission window closing time:

6.5A.1. Market Participants other than the Electricity Generation Corporation that are Market Generators or that are Market Customers with Dispatchable Loads or Curtailable Loads may submit Balancing Data Submission data for a Trading Day to the IMO between:

- (a) 11:00 AM on the Scheduling Day; and
- (b) 12:50 PM on the Scheduling Day, with the exception that if:
 - i. a software system failure at the IMO site has prevented any Market Participant from submitting a Balancing Data Submission; or
 - ii. a software system failure at a Market Participant site has prevented that Market Participant from submitting a Balancing Data Submission and that Market Participant has informed the IMO of this failure by 12:30 PM on the Scheduling Day;

the IMO may at its discretion extend the closing time to up to 3:00 PM on the Scheduling Day.

6.12.1.

- (a) By 1:30 PM on the Scheduling Day (or within 40 minutes of a closing time extended in accordance with clause 6.5.1(b) or clause 6.5A.1(b)), the IMO must determine the Dispatch Merit Orders identified in paragraphs (b) to (g).

4. Describe how the proposed Market Rule change would allow the Market Rules to better address the Wholesale Market Objectives:

The objectives of the market as set out in clause 1.2.1 of the Market Rules are:

- (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 IMO considers that economic efficiency will be promoted by determining the STEM and the Balancing Mechanism prices on the basis of the most current participant bids and offers instead of the administrated prices that would result if the Market Systems cannot produce valid STEM results within the prescribed timelines. This is consistent with the operation of objective (a) of the Market Objectives.

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

The STEM is an important component of the Wholesale Electricity Market and measures taken to ensure that STEM trading is not suspended will benefit competitive trades in the market. Reducing the risk of having to suspend the STEM for any trading day will assist existing participants in maintaining their confidence in the Wholesale Electricity Market and in the STEM as a trading place, in particular. It will also assist prospective participants in finding the Wholesale Electricity Market, and thus the STEM market, a stable and reliable trading environment in which to participate.

The IMO considers that the proposed changes, therefore, are consistent with the operation of objective (b) of the Market Objectives.

- (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.*

The IMO considers that the proposed changes do not impact on, and therefore are consistent with, the operation of objective (c) of the Market Objectives.

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

The IMO considers that because of their expected positive contribution to the achievement of objectives (a) and (b), the proposed changes are consistent with the operation of objective (d) of the Market Objectives.

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

The IMO considers that the proposed changes do not impact on, and therefore are consistent with, the operation of objective (e) of the Market Objectives.

5. Provide any identifiable costs and benefits of the change:

Market Participants may require some internal procedure changes. The IMO market systems already provide flexibility to change or extend the daily market timelines and, therefore, no system costs have been identified as resulting from this change.

Avoiding market suspension will benefit the market by ensuring that energy is settled at market prices instead of at administered prices. This will also assist in making the Wholesale Electricity Market an attractive and stable market for potential new Participants, thus potentially helping to increase competition in the market.
