

Independent Market Operator



Draft Market Rule Change Report

Title: Indisputable Market Prices

Ref: RC_2008_08

Standard Rule Change Process

Date: 7 May 2008

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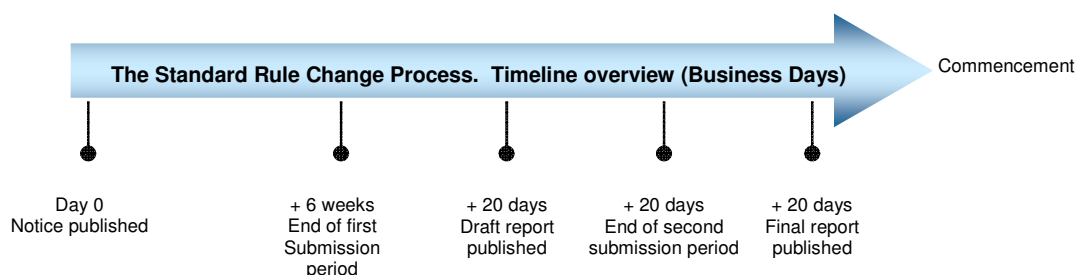
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1. INTRODUCTION

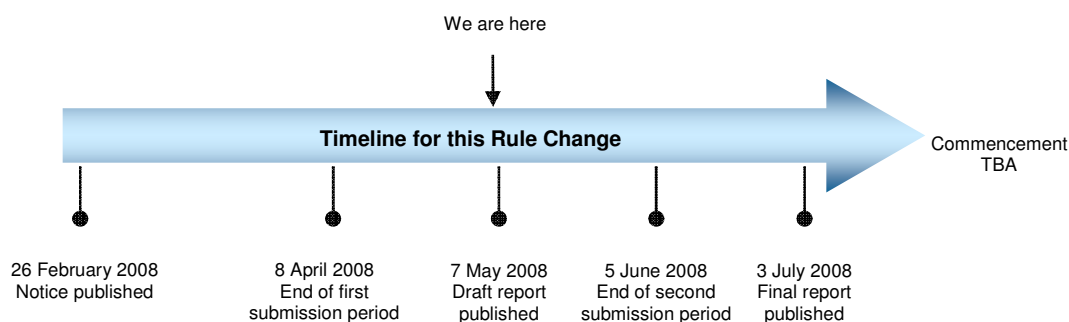
On 25 February 2008, the IMO submitted a Rule Change Proposal regarding the addition of new clauses 6.4.7 and 6.14.7 to the Wholesale Electricity Market Rules.

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, outlined in section 2.7 of the Market Rules:



The key dates in processing this Rule Change Proposal are:



Based on the submissions received, the IMO's draft decision is to implement the Rule Change Proposal in the form outlined in section 6 of this Report.

This Draft Rule Change Report on the Rule Change Proposal has been prepared by the IMO in accordance with clause 2.7.6 of the Market Rules.

Interested parties are invited to provide further submissions in relation to this Draft Rule Change Report. In accordance with the Market Rules timelines, the deadline for submissions is 5 June 2008.

2. THE RULE CHANGE PROPOSAL

2.1. Submission Details

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Phone:	(08) 9254 4300
Email:	imo@imowa.com.au
Organisation:	Independent Market Operator
Address:	221 St George's Terrace, Perth WA 6000
Date submitted:	25/02/2008
Urgency:	Medium
Change Proposal title:	Indisputable Market Prices
Market Rules affected:	6.4.7 and 6.14.7 (both new)

2.2. Details of the Proposal

The IMO submitted that the intent of the Wholesale Electricity Market design was that once market prices (i.e. STEM and balancing prices) had been set and published, they could not subsequently be changed. This intent is supported by the fact that balancing prices are published two days after real time, regardless of the fact that the inputs to the price calculation (such as meter data inputs) could change after this time. This was aimed at providing certainty to Participants around published prices.

However, there is uncertainty under the current Market Rules as to the ability to change market prices in certain circumstances and the purpose of the proposed Rule Change is to clarify the original intent of the Market Rules.

The IMO noted that Market Participants may issue a "Notice of Disagreement" in relation to STEM settlement statements, non-STEM settlement statements and adjusted settlement statements under clauses 9.17.3, 9.18.4 and 9.19.5 of the Market Rules respectively.

The IMO submitted that when a Market Participants issues a "Notice of Disagreement" regarding any information developed by the IMO that is an input to the settlement process, clause 9.20.6 places an obligation on the IMO to determine the correct value for the item. In accordance with clause 9.20.6 of the Market Rules:

"If a Notice of Disagreement relates to any item of information developed by the IMO, then:

- a. if the information relates to values that are inputs to the settlement process the IMO must determine a value for the item, which may be a revised value, that it considers to be in compliance with these Market Rules and accurate;*
- b. ..."*

Under the current wording of the Rules, this clause appears to encompass all inputs into the various settlement processes, including market prices (STEM or balancing price). As such, if a Market Participant were to issue a "Notice of Disagreement" regarding a perceived incorrect calculation of market prices due to, for example, incorrect inputs, the IMO would arguably be obliged to recalculate the disputed price. Perversely, this could

lead to price changes resulting from seemingly innocuous changes to inputs such as SCADA data, meter data, etc, well after the publication of the original prices.

The IMO considered there is sound economic argument for market prices to be “indisputable” once they have been determined and published. Market prices are used in electricity markets for a number of general purposes outside of the wholesale market settlements process including (but not limited to):

- As the basis for deriving contract strike prices;
- The settlement of bilateral contracts;
- The settlement of Over The Counter derivative trades (OTCs); and
- In some cases, passed through to end-use customers as part of contractual billing arrangements.

An environment that permits market prices to be changed through dispute introduces significant levels of risk in relation to these market instruments operating outside of the formalised market operations. The IMO submitted that Market Participants generally prefer to have confidence that, once prices have been published, they cannot be changed. This fact has been well established in the National Electricity Market (NEM), particularly during a recent consultation investigating the ability of NEMMCO (the NEM Market Operator) to change market prices following the discovery of incorrect inputs to the dispatch process (“Manifestly Incorrect Inputs Rule Consultation”). During this consultation, Market Participants clearly expressed the desire for market prices that cannot be changed outside of a very tight time frame.

The purpose of the IMO’s Rule Change Proposal was to clarify the original intent of the Rules and provide the market with certainty that, once market prices are published, there will be no opportunity for these prices to be changed through the issue of a Notice of Disagreement.

2.3. The Proposal and the Wholesale Market Objectives

The IMO submitted that under the current rules, Market Participants face a potential risk of prices being altered through the settlement disagreement processes. The negative flow on effect of changing prices on market instruments outside of the formalised market processes (such as bilateral contracts and customer supply agreements) could be significant.

Providing Participants with confidence that prices are not subject to changes will promote competition and will remove a risk to the market that could represent a barrier to entry. Therefore the proposed change will promote market objective (b) of encouraging competition between generators and retailers in the South West Interconnected System.

2.4. Amending Rules proposed by the IMO

The IMO proposed that the following new clauses be added to the Market Rules (~~deleted words~~, added words):

6.4.7. Once published under clause 6.4.3, STEM Clearing Prices cannot be altered, either through disagreement under clause 9.20.6, or through dispute under clause 9.21.

6.14.7. Once published under clause 6.14.1, MCAP, UDAP and DDAP cannot be altered, either through disagreement under clause 9.20.6, or through dispute under clause 9.21.

2.5. *The IMO's Initial Assessment of the Proposal*

The IMO decided to proceed with the proposal on the basis of its preliminary assessment, which indicated that the proposal was consistent with the Wholesale Market Objectives. This preliminary assessment was published in a Rule Change Notice on 26 February 2008.

3. SUBMISSIONS

The IMO received two submissions, from the Economic Regulation Authority and Landfill Gas & Power Pty Ltd, on the changes proposed by the IMO. The submissions are summarised below, and their full text is available on the IMO website.

3.1. Market Advisory Committee

The Market Advisory Committee (MAC) was first advised of the proposed rule change at its meeting on 13 February 2008. At this meeting MAC members agreed that the change was reasonable, and that it should be put forward by the IMO as a formal proposal.

MAC members were also invited to discuss the proposal at the MAC meeting on 12 March 2008, after the proposal had been published on the IMO website. All members of MAC expressed their support for the Rule Change.

MAC also discussed the timeframe within which prices are set by the IMO. System Management informed that in rare circumstances (1-2 times per year), a SCADA communication failure may mean that data for a unit is temporarily lost and needs to be retrieved, which may take an additional day. This was considered relevant to the Rule Change by MAC.

MAC agreed that it is more important that the data is validated than having MCAP published the day after the trading day. If an additional day of validation, in cases when for example SCADA data is lost and needs to be recovered, allows for a more accurate MCAP to be calculated then the rules should be amended to allow for a 24 hour delay in publishing the balancing prices.

3.2. Submission from the Economic Regulation Authority (ERA)

ERA expressed its support for the Rule Change Proposal, including the amendments proposed by MAC at its meeting on 12 March 2008.

3.3. Submission from Landfill Gas & Power Pty Ltd (LGP)

LGP expressed its support for the Rule Change Proposal. In its submission LGP supported the proposal to prohibit the changing of established prices. LGP submitted that permitting these prices to subsequently change will introduce significant risk in off-market functions such as pass through to end use customers. LGP considered that providing Participants with confidence that prices are not subject to changes will promote competition and will remove a risk to the market that could represent a barrier to entry.

3.4. Public Forums and Workshops

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

4. THE IMO'S ASSESSMENT AND DECISION

4.1. Assessment

4.1.1. Submissions

All parties responding within the prescribed submission period expressed support for the Rule Change Proposal. No party proposed any changes to the proposed amendments to the Market Rules.

4.1.2. Additional Amendments

MAC proposed additional amendments to the rules to allow for a 24 hour delay in publishing MCAP, in circumstances when problems with SCADA data prevent System Management from providing relevant data to the IMO within the timeframes specified in the Market Rules. After further consideration of this issue, System Management has advised the IMO that a delay of 24 hours may not allow sufficient time to retrieve lost data in the event that exceptional circumstances arise. Instead, System Management has proposed a maximum extension of up to two business days in these exceptional circumstances.

The IMO has found this reasonable and proposes to introduce a new clause, 6.14.1A providing for the MCAP publication to be delayed for up to two business days if System Management advises that it cannot provide data to the IMO within the timelines prescribed in clause 7.13.1. The introduction of clause 6.14.1A will also require a minor amendment to clause 6.14.1, introducing a reference to clause 6.14.1A.

Further, to avoid System Management breaching its obligations under clause 7.13.1 when it delays the provision of data to the IMO under the new clause 6.14.1A, the IMO proposes to introduce a new clause, 7.13.1B, allowing System Management to extend the timelines in clause 7.13.1 under these circumstances. It is noted that the rest of the data provided by System Management under clause 7.13.1 is not used by the IMO until the time the Non-STEM settlement processes are undertaken. Therefore, a consequential delay in the provision of that other data would not impact on any Market Rule timelines.

The new clauses 6.14.1A and 7.13.1B, and the amended clause 6.14.1, are presented in section 6 of this Report.

4.1.3. The IMO's Assessment

According to clause 2.4.2 of the Market Rules *“the IMO must not make Amending Rules unless it is satisfied that the Market Rules, as proposed to be amended or replaced, are consistent with the Wholesale Market Objectives”*.

The IMO considers that the proposed Amending Rules will have the following impact on how the Market Rules address the Wholesale Market Objectives:

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

The IMO' assessment against market objective (b) is as follows:

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

Under the current Market Rules, Market Participants face a potential risk of prices being altered through the settlement disagreement processes. The potential negative impact of changing prices on market instruments outside of the formalised market processes (such as bilateral contracts and customer supply agreements) could be significant.

Providing Participants with confidence that prices are not subject to changes outside of strict timelines will promote competition and will remove a potential risk to the market that could represent a barrier to entry. The IMO considers that the proposed changes, therefore, will allow the market objectives to better address market objective (b). In its submission, Landfill Gas and Power supported this assessment.

In accordance with Clause 2.4.3(b) of the Market Rules, in deciding whether or not to make Amending Rules, the IMO must also have regard to the practicality and cost of implementing the Amending Rules.

The proposed changes will not require any changes to the Wholesale Electricity Market Systems operated by the IMO. No other costs have been identified in relation to the implementation of the proposed changes.

4.2. IMO's Draft Decision

The IMO's draft decision is to implement the proposed amendments to clause 6.14.1 and the proposed new clauses 6.4.7, 6.14.1A, 6.14.7 and 7.13.1B to the Wholesale Electricity Market Rules.

The IMO has made its draft decision on the basis that the resulting Amending Rules will allow the Market Rules to better address the Wholesale Market Objectives.

The wording of the relevant Amending Rules is presented in section 6 of this Report.

5. CALL FOR SUBMISSIONS

The IMO wishes to receive submissions regarding 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 close of business on Thursday 5 June 2008..

The IMO prefers to receive submissions by email to marketadmin@imowa.com.au using the submission form available on the IMO website:

http://www.imowa.com.au/10_5_1_b_rule_change_proposal.htm

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

Independent Market Operator

Attn: Manager Market Administration

PO Box 7096

Cloisters Square, Perth, WA 6850

Fax: (08) 9254 4399

6. PROPOSED AMENDING RULES

The IMO proposes to implement the following amendments to the Market Rules (added words are underlined and deletions are shown with ~~strike through~~):

Clause 6.4.7

6.4.7. Once published under clause 6.4.3, STEM Clearing Prices cannot be altered, either through disagreement under clause 9.20.6, or through dispute under clause 9.21.

Clause 6.14.1

6.14.1. Subject to clause 6.14.1A, bBy 3 PM on the first Business Day following the end of a Trading Day, the IMO must calculate and publish for each Trading Interval on the Trading Day:

- (a) the Marginal Cost Administered Price (MCAP);
- (b) the Upwards Deviation Administered Price (UDAP); and
- (c) the Downwards Deviation Administered Price (DDAP),

in accordance with this clause 6.14.

Clause 6.14.1A

6.14.1A. If System Management advises the IMO that it has been prevented from completing the relevant processes that enable the provision of the data described in clause 7.13.1, the IMO may extend the timeline prescribed in clause 6.14.1, subject to any such extension not resulting in more than two Business Day delay to that timeline, and must advise Rule Participants of any such extension as soon as practicable.

Clause 6.14.7

6.14.7. Once published under clause 6.14.1, MCAP, UDAP and DDAP cannot be altered, either through disagreement under clause 9.20.6, or through dispute under clause 9.21.

Clause 7.13.1B

7.13.1B. If System Management advises the IMO that it has been prevented from completing the relevant processes that enable the provision of the data described in clause 7.13.1, the IMO may extend the timeline prescribed in clause 7.13.1, subject to any such extension not resulting in more than two

Business Day delay to that timeline, and must advise System Management of any such extension as soon as practicable.

7. GENERAL INFORMATION ABOUT RULE CHANGE PROPOSALS

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

In order for the proposal to be progressed, the change proposal must explain how it will enable the Market Rules to better contribute to the achievement of the Wholesale Market Objectives. The market objectives 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
- (e) to encourage the taking of measures to manage the amount of electricity used and when it is used

A Rule Change Proposal can be processed using a Standard Rule Change Process or a Fast Track Rule Change Process. The standard process involves a combined 10 weeks public submission period. Under the shorter fast track process the IMO consults with Rule Participants who either advise the IMO that they wish to be consulted or the IMO considers have an interest in the change.