

Independent Market Operator



Rule Change Notice

Title: STEM Timeline Flexibility

Ref: RC_2007_06

Date: 19 June 2007

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INTRODUCTION

Market Rule 2.5.1 of the Wholesale Electricity 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 submit this to the Independent Market Operator (IMO).

The IMO will assess the proposal and, within 5 Business Days of receiving the Rule Change Proposal Form, will notify the proponent whether the Rule Change Proposal will be progressed further.

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 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.

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

THE RULE CHANGE PROPOSAL

The Submission

The IMO submitted, on 11 June 2007, a Rule Change Proposal regarding an inclusion of a new clause 6.4.6, and changes to clauses 6.5A.1 and 6.12.1 of the Wholesale Electricity Market Rules.

This Rule Change Notice is published according to Market Rule 2.5.7, which requires the IMO to publish a notice within 7 Business Days of receiving a Rule Change Proposal.

Submission details

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Date submitted: 11/06/2007
Urgency: High
Change Proposal title: STEM Timeline Flexibility

Details of the Proposal

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 four 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.

The 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 11:00 AM 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 situations of system issues. 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.

The Proposal and the 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.

WHETHER THE PROPOSAL WILL BE PROGRESSED FURTHER

The IMO has decided to proceed with this proposal on the basis that the IMO's preliminary assessment indicated that the proposal is consistent with the Market Objectives.

The proposal will be progressed according to the Standard Rule Change Process described in section 2.7 of the Market Rules.

The projected timelines for processing this proposal are:

- This Rule Change Notice published 19/06/2007
- Submission period 20/06/2007 - 31/07/2007
- Draft Report published 28/08/2007
- Second submission period 29/08/2007 - 25/09/2007
- Final Report published 23/10/2007

PROPOSED AMENDING 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 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 6.3A, 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 Rule Participants of 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 or its supporting infrastructure has prevented any Rule Participant from submitting a Balancing Data Submission; or

ii. a software system failure at a Rule Participant site or its supporting infrastructure has prevented that Rule Participant from submitting a Balancing Data Submission and that Rule 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).

CALL FOR SUBMISSIONS

The IMO wishes to receive submissions regarding this proposal. The submission period is 6 weeks from the publication date of this notice. Submissions must be delivered to the IMO by close of business on **Tuesday 31 July 2007**.

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_a_v_open_rule_change_proposals.htm

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

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