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## Wholesale Electricity Market Market Rule Change Proposal

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### Submitted by

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<b>Urgency:</b>	Medium
<b>Change Proposal title:</b>	<b>Indisputable Market Prices</b>
<b>Market Rule(s) affected:</b>	6.4, 6.14

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### 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) 9254 4399

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 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) Describe the concern with the existing Market Rules that is to be addressed by the proposed Market Rule change:

It is considered 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 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 this proposed Rule Change is to clarify the original intent of the Market Rules.

It is 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.

Where a Market Participant 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 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.

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 contacts;
- 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 functions operating outside of the formalised market operations. 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 NEM, particularly during a recent consultation investigating the ability of NEMMCO 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 this rule change proposal is 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) Explain the reason for the degree of urgency:

This change should be implemented as soon as practicable to remove the risk that Market Participants currently face regarding changing prices.

## 3) Provide any proposed specific changes to particular Rules (for clarity, please use the current wording of the Rules and place a ~~strike through~~ where words are deleted and underline words added)

### 6.4 The STEM Auction Timetable and Process

- 6.4.1. The IMO must undertake the process described in clause 6.9 and determine the STEM Auction results for a Trading Day no earlier than at 10:00 AM, and no later than 10:30 AM, on the relevant Scheduling Day;
- 6.4.2. The IMO must communicate to System Management the total quantity of energy scheduled to be supplied under Bilateral Contracts and in the STEM Auction, by each

Market Participant, for each Trading Interval of a Trading Day by 10:30 AM on the relevant Scheduling Day.

- 6.4.3. The IMO must make available to each Market Participant the following information in relation to a Trading Day by 10:30 AM on the relevant Scheduling Day:
- (a) the Trading Intervals, if any, in which the STEM Auction was suspended;
  - (b) the STEM Clearing Price in all Trading Intervals for which the STEM was not suspended;
  - (c) the quantities scheduled in respect of that Market Participant in the STEM Auction for each Trading Interval; and
  - (d) the Net Contract Position of the Market Participant in each Trading Interval, as determined in accordance with clause 6.9.13.
- 6.4.4. Market Participants to which the information described in clause 6.4.3 relates for a Trading Day must access that information by 10:45 AM on the relevant Scheduling Day.
- 6.4.5. If the IMO becomes aware that a Market Participant has been unable to access the information described in clause 6.4.3 for a Trading Day by 10:45 AM of the relevant Scheduling Day, it must use reasonable endeavours to contact the affected Market Participant to ensure that at least the information in clauses 6.4.3(c) and 6.4.3(d) is conveyed to the Market Participant in sufficient time for that Market Participant to make a Resource Plan Submission where required.
- 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.
- 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. Calculation of MCAP, UDAP and DDAP

6.14.1. By 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.

6.14.2. The value of MCAP for a Trading Interval is calculated as follows:

- (a) If the STEM Auction was suspended for the Trading Interval under clause 6.10.1, and the process described in clause 6.9 cannot subsequently be completed by the time MCAP must be published under clause 6.14.1, the IMO must determine MCAP for the Trading Interval to be the value of MCAP for the equivalent Trading Interval:
  - i. if the IMO is determining MCAP for a Business Day, MCAP will be the value for the most recent Trading Day in the past which is a Business Day and commenced on the same day of the week;
  - ii. if the IMO is determining MCAP for a day which is not a Business Day, MCAP will be the value for the most recent Trading Day in the past which is not a Business Day.
- (b) If the STEM Auction was not suspended for the Trading Interval under clause 6.10.1, or was suspended but the process described in clause 6.9 can subsequently be completed for the purposes of this clause by the time MCAP must be published under clause 6.14.1, then:
  - i. If any of the following circumstances apply, then MCAP must be calculated in accordance with clause 6.14.3:
    - 1. [Blank]
    - 2. the Relevant Quantity for the Trading Interval is not between 95% and 105% of the Scheduled System Load for that Trading Interval.

3. [Blank]

4. [Blank]

- ii. If paragraph (i) does not apply then MCAP equals the STEM Clearing Price for that Trading Interval.

6.14.3. Where MCAP is to be calculated in accordance with this clause under clause 6.14.2(b)(i):

- (a) subject to clause 6.9.4 the IMO must determine MCAP Price Curves for each Market Generator for the relevant Trading Interval in accordance with Appendix 6 using the valid STEM Submissions and Bilateral Submissions relating to that Trading Interval;
- (b) the IMO must determine an Aggregate MCAP Price Curve for each Trading Interval from the MCAP Price Curves determined in accordance with paragraph (a) where this Aggregate MCAP Price Curve:
  - i. describes the quantity included in the MCAP Price Curves for all Market Generators at every price between, and including, the Minimum STEM Price and the Alternative Maximum STEM Price; and
  - ii. passes through the point indicating zero supply at the Minimum STEM Price.
- (c) the IMO will determine MCAP as:
  - i. the Alternative Maximum STEM Price, where the Relevant Quantity determined according to clause 6.14.4 exceeds the total quantity in the Aggregate MCAP Price Curve; and otherwise
  - ii. the lowest price applying for the Relevant Quantity determined according to clause 6.14.4 on the Aggregate MCAP Price Curve.

6.14.4. For the purposes of clauses 6.14.2 and 6.14.3:

- (a) the “Operational System Load Estimate” for a Trading Interval is the estimate that the IMO receives from System Management of the total Loss Factor adjusted MWh consumption supplied via the SWIS during that Trading Interval. This estimate equals the total loss adjusted generator sent out energy as estimated from generator operational meter data and the use of state estimator systems;

- (b) the “Resource Plan Load” for a Trading Interval is total consumption as specified in applicable Resource Plans relating to that Trading Interval, including for Interruptible Loads, Curtailable Loads, Dispatchable Loads and Non-Dispatchable Loads; and
- (c) the “Scheduled System Load” for a Trading Interval is the sum of:
  - i. the sum over all Resource Plans for that Trading Interval of the total Loss Factor adjusted generation scheduled in each Resource Plan;
  - ii. the sum over all Resource Plans of the shortfall quantity for that Trading Interval as described in clause 6.11.1(e); and
  - iii. the Net Contract Position of the Electricity Generation Corporation for that Trading Interval.
- (d) the “Relevant Quantity” equals:
  - i. the Operational System Load Estimate for the Trading Interval; plus
  - ii. IMO’s estimate of the total MWh demand curtailed during that Trading Interval (if any); plus
  - iii. the IMO’s estimate of the amount by which energy provided by Market Generators other than the Electricity Generation Corporation falls short of the relevant Resource Plan quantities.

6.14.5. The value of UDAP for a Trading Interval equals:

- (a)  $0.5 \times \text{MCAP}$  during Peak Trading Intervals; and
- (b) zero during Off-Peak Trading Intervals.

6.14.6. The value of DDAP for a Trading Interval equals the lesser of:

- (a) the Alternative Maximum STEM Price; and
- (b) the greater of:
  - i. the Minimum STEM Price; and
  - ii. the price that is:
    - 1.  $1.3 \times \text{MCAP}$  for Peak Trading Intervals; and
    - 2.  $1.1 \times \text{MCAP}$  for Off-peak Trading Intervals.

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.

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

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 through 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. This will promote Market Objective (b) of encouraging competition between generators and retailers in the South West Interconnected System.

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**5) Provide any identifiable costs and benefits of the change:**

There is no identifiable cost in relation to this rule change as there will be no system changes required.

The change will remove some market risk regarding price changes, will promote confidence regarding market outcomes and will assist in enhancing competition accordingly.

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