

Independent Market Operator



Rule Change Notice

Title: Indisputable Market Prices

Ref: RC_2008_08

Standard Rule Change Process

Date: 26 February 2008

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Independent Market Operator

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1. INTRODUCTION

Market Rule 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 submit this to the Independent Market Operator (IMO).

The IMO will assess the proposal and, within 5 Business Days of receiving the proposal form, will notify the proponent whether the 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 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; 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 Rule Change Process or a Fast Track Rule Change 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.

2. THE RULE CHANGE PROPOSAL

2.1. The Submission

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

2.1.1. Submission details

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Date submitted:	25/02/2008
Urgency:	Medium
Change Proposal title:	Indisputable Market Prices

2.2. Details of the Proposal

The IMO submits 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 notes 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 submits 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 considers 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 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 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.

2.3. *The Proposal and the Wholesale Market Objectives*

The IMO submits 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.

3. 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 Wholesale Market Objectives.

The IMO has decided to process this Rule Change Proposal using 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 26/02/2008
- First Submission period 26/02/2008 - 08/04/2008
- Draft Report published 07/05/2008
- Second submission period 08/05/2008 - 05/06/2008
- Final Report published 03/07/2008

4. CALL FOR SUBMISSIONS

The IMO is seeking submissions regarding this proposal. The submission period is six weeks from the publication date of this notice. Submissions must be delivered to the IMO by close of business on **Tuesday 8 April 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_MarketRulesChangeSummary.html

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

5. PROPOSED AMENDING RULES

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

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 6.14.7

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.