



Market Advisory Committee

Agenda

Meeting No.	42
Location:	IMO Board Room Level 3, Governor Stirling Tower, 197 St Georges Terrace, Perth
Date:	Wednesday 14 September 2011
Time:	2.00 – 5.00pm

Item	Subject	Responsible	Time
1.	WELCOME	Chair	2 min
2.	MEETING APOLOGIES / ATTENDANCE	Chair	2 min
3.	MINUTES OF PREVIOUS MEETING 40	Chair	10 min
4.	ACTIONS ARISING	Chair	10 min
5.	MARKET PROCEDURES		
	a) Overview	IMO	2 min
6.	MARKET RULES		
	a) Market Rule Change Overview	IMO	2 min
	b) Balancing and LFAS arrangements – process to date and next steps	IMO	10 min
	c) Responses to RDIWG members comments on PRC_2011_10	IMO	60 min
	d) PRC_2011_10: Competitive Balancing and Load Following Market (<i>proposed Amending Rules to be table at the meeting</i>)	IMO	30 min
7.	WORKING GROUPS		
	a) Overview and membership updates	IMO	2 min
	b) RDIWG Update (<i>verbal update</i>)	IMO	2 min

Item	Subject	Responsible	Time
8.	GENERAL BUSINESS		
9.	NEXT MEETING: 5 October 2011 (2.00 – 5.00pm)		

Independent Market Operator

Market Advisory Committee

Minutes

Meeting No.	40
Location	IMO Board Room Level 3, Governor Stirling Tower, 197 St Georges Terrace, Perth
Date	Wednesday 13 July 2011
Time	Commencing at 2.00 pm

Attendees	Class	Comment
Allan Dawson	Chair	
John Rhodes	Compulsory – Customer	Proxy
Brendan Clarke	Compulsory – System Management	Proxy
Andrew Everett	Compulsory – Generator	
Peter Mattner	Compulsory – Network Operator	
Steve Gould	Discretionary – Customer	
Corey Dykstra	Discretionary – Customer	2.15 pm – 3.15 pm
Pablo Campillos	Discretionary – Customer	Proxy
Peter Huxtable	Discretionary – Contestable Customer Representative	
Andrew Sutherland	Discretionary – Generator	
Shane Cremin	Discretionary – Generator	
Ben Tan	Discretionary – Generator	
Paul Biggs	Small Use Customer Representative	
Chris Brown	Observer – ERA	Proxy
Paul Hynch	Minister's appointee	Proxy
Apologies	Class	Comment
Ken Brown	Compulsory – System Management	
Stephen MacLean	Compulsory – Customer	
Michael Zammit	Discretionary – Customer	
Wana Yang	Observer – ERA	
Nerea Ugarte	Minister's appointee	
Also in attendance	From	Comment
Nani Newton	IMO (Contractor)	Minutes
Jenny Laidlaw	IMO	Minutes
Greg Ruthven	IMO	Presenter
Robbie Flood	Alinta	Observer
Adam Lourey	Alinta	Observer
Zoë Davies	IMO	Observer
Fiona Edmonds	IMO	Observer
Courtney Roberts	IMO	Observer

Item	Subject	Action
1.	WELCOME <p>The Chair opened the meeting at 2.00 pm and welcomed members to the 40th meeting of the Market Advisory Committee (MAC).</p>	
2.	MEETING APOLOGIES / ATTENDANCE <p>Apologies were received from:</p> <ul style="list-style-type: none"> Ken Brown Stephen MacLean Wana Yang Michael Zammit Nerea Ugarte <p>The following other attendees were noted:</p> <ul style="list-style-type: none"> Brendan Clarke (Proxy for Ken Brown) Pablo Campillos (Proxy for Michael Zammit) Paul Hynch (Proxy for Nerea Ugarte) Greg Ruthven (Presenter) Adam Lourey (Observer) Zoë Davies (Observer) Courtney Roberts (Observer) John Rhodes (Proxy for Stephen MacLean) Chris Brown (Proxy for Wana Yang) Nani Newton (Minutes) Robbie Flood (Observer) Jenny Laidlaw (Observer) Fiona Edmonds (Observer) 	
3.	MINUTES OF PREVIOUS MEETING <p>The minutes of MAC Meeting No. 39, held on 8 June 2011, were circulated prior to the meeting.</p> <p>The minutes were accepted without amendment as a true and accurate record of Meeting No. 39.</p> <p><i>Action Point: The IMO to publish the minutes of Meeting No. 39 on the website as final.</i></p>	IMO
4.	ACTIONS ARISING <p>Most actions arising were complete. The following exceptions were noted.</p> <ul style="list-style-type: none"> Item 27: Mr Greg Ruthven advised that this action point (to work with System Management to investigate System Management's concerns around the methodology used for the Availability Curve) was nearly completed, pending a final close out meeting. Item 33: Ms Jenny Laidlaw noted that Mr Stephen MacLean had provided the IMO with his suggested amendments to the Pre Rule Change Discussion Paper: Ancillary Services Payment Equations 	

Item	Subject	Action
	<p>(PRC_2010_27). The IMO proposes to update the drafting of PRC_2010_27 as soon as the drafting for the Market Evolution Program (MEP) proposal for competitive balancing and Load Following Ancillary Services (LFAS) markets becomes available. Ms Laidlaw advised that the IMO will take Mr MacLean's suggestions into consideration at that time.</p>	
5a	<p>MARKET RULE CHANGE OVERVIEW</p> <p>Ms Laidlaw gave an overview of a new issue in the IMO's Rule Change and Issues Log. The issue relates to the availability obligations of a new Demand Side Programme (DSP) that enters the market before the first Capacity Year for which it has Certified Reserve Capacity. Ms Laidlaw noted that Synergy had originally raised the issue, querying what the Facility's required hours of availability would be for the period from market entry until the start of the relevant Capacity Year. Ms Laidlaw noted that the IMO was currently seeking external advice on the issue.</p> <p>The Chair noted that the IMO will submit a new Minor and Typographical Rule Change Proposal in the next few weeks.</p> <p>The MAC noted the Market Rule Change Overview.</p>	
5b	<p>CALCULATION OF NET STEM SHORTFALL FOR SCHEDULED GENERATORS [PRC_2011_07]</p> <p>The Chair invited Mr Corey Dykstra to present Alinta's Pre Rule Change Discussion Paper: Calculation of Net STEM Shortfall for Scheduled Generators (PRC_2011_07). Mr Dykstra introduced Mr Robbie Flood and Mr Adam Lourey, who were attending the meeting to assist with any detailed technical questions.</p> <p>Mr Dykstra considered that PRC_2011_07 addresses a manifest error in the Market Rules, similar to the issue addressed by the Rule Change Proposal: Calculation of Net STEM Shortfall (RC_2010_03). Mr Dykstra explained that an error existed in the Net STEM Shortfall calculation, affecting a Market Participant with a portfolio containing more than one Scheduled Generator. If one of the Scheduled Generators experiences a Forced Outage in a Trading Interval when another of the Scheduled Generators is not required to run, then the Market Participant can incur additional penalties, over the expected Forced Outage Refunds, that would not apply to a stand alone Scheduled Generator.</p> <p>Mr Dykstra explained that the issue had not been detected previously by Alinta, probably due to a lack of internal resources. Mr Dykstra considered that the error constituted a significant risk to Alinta over next summer, when the Refund Table multipliers are higher and the risk of outages is the greatest. Alinta considered that the proposal should be progressed using the Fast Track Rule Change Process, to allow for its implementation before next summer.</p> <p>Mr Dykstra considered that while the proposed MEP changes appear likely to remove the relevant component of the Net STEM Shortfall</p>	

Item	Subject	Action
	<p>calculation, there was some risk as to the timing of these changes. Mr Dykstra also considered that (based on the costs associated with RC_2010_03) the costs of PRC_2011_07 were likely to be minor, and therefore in Alinta's view likely to be outweighed by the benefits of the proposal.</p> <p>Mr Dykstra noted that the tables at the end of the paper provided a demonstration of the error and how it would be corrected by the proposed amendments.</p> <p>The Chair noted that he and Mr Dykstra had previously discussed a potential issue around the availability of Navita resources (Navita being the providers of the IMO's settlements system). The IMO has been able to reserve three months' worth of Navita's resources for the MEP balancing and LFAS proposal, which involves extensive changes to settlements. However, Navita has advised that additional resources are unlikely to be available before April 2012, due to commitments to other clients. The Chair noted that two IMO representatives were travelling to the USA the following week to meet with Navita. These discussions were expected to give the IMO a better understanding of the availability of Navita resources to make updates to the settlements system before the start of next summer.</p> <p>Mr Clarke noted that he had independently worked through the examples in Alinta's proposal and agreed that there was definitely an error in how the calculations currently worked. The Chair questioned what the financial impact on Alinta had been since market start. Mr Dykstra replied that for recent occurrences the cost to Alinta had been in the tens of thousands. Alinta had been fortunate on these occasions in that the Refund Table multipliers had been low at the time. Alinta had not worked back to calculate the full extent of the financial impact since market start.</p> <p>Mr Shane Cremin considered that there was definitely a precedent (in RC_2010_03) for action to be taken, and that if definite costs and risks were identified it was clear what needed to be done, subject to a cost/benefit analysis. Mr Andrew Sutherland queried whether any alternatives were available to Alinta, for example disaggregating its portfolio by assigning its Facilities to different Market Participants.</p> <p>Mr Sutherland also queried whether the IMO could implement a manual work around for settlements if resources were not available to implement an automated solution. The Chair was not sure whether this would be a viable option, but again noted that he would have a better picture after the IMO's discussions with Navita the following week. Mr Dykstra queried whether the IMO wished Alinta to delay the formal submission of its proposal until these discussions had taken place. The Chair considered that Alinta should not delay the submission of its proposal. If the proposal is accepted but issues arise with its implementation timing then this would be a matter for further discussion at the next MAC meeting.</p> <p>The Chair thanked MAC members for their input into the discussion of PRC_2011_07.</p>	

Item	Subject	Action
5c	<p data-bbox="329 258 1222 321">CURTAILABLE LOAD DISPATCH FOR NETWORK CONTROL SERVICES [PRC_2011_08]</p> <p data-bbox="329 338 1222 558">Mr Clarke noted that the Pre Rule Change Proposal: Curtailable Load Dispatch for Network Control Services (PRC_2011_08) addressed the issues raised by System Management in the Concept Paper of the same name presented at the previous MAC meeting. As the MAC had discussed the Concept Paper and supported the development of PRC_2011_08 Mr Clarke did not consider that a further presentation was required.</p> <p data-bbox="329 590 1222 779">Ms Laidlaw noted that the IMO had advised System Management to proceed with PRC_2011_08, to avoid any delays in the progression of the proposal. Since the distribution of the meeting papers the IMO had further reviewed the proposal and had identified some additional suggestions around the dispatch of a Demand Side Programme (DSP) for consideration by the MAC.</p> <p data-bbox="329 810 1222 1220">Ms Laidlaw noted that clause 7.6.6 of the Market Rules listed the various reasons for which System Management could issue a Dispatch Instruction to a Facility. A Dispatch Instruction could be issued in accordance with an Ancillary Service Contract, a Balancing Support Contract or a Network Control Service Contract (NCSC), in connection with an equipment test or else to meet a system shortfall under clauses 7.6.3 and 7.6.4. Currently PRC_2011_08 proposed that dispatch under an NCSC should be not be restricted by any consideration of the Facility's Reserve Capacity Obligation Quantity (RCOQ). The IMO considered that RCOQ should only affect dispatch under clauses 7.6.3 and 7.6.4 (i.e. under clause 7.6.6.(e)) and that dispatch for any other reason should be treated in the manner proposed by System Management for dispatch under an NCSC.</p> <p data-bbox="329 1251 1222 1598">Mr John Rhodes agreed that obligations under an NCSC should be regarded as being separate to those under the RCM. Mr Sutherland queried the consequences if a DSP failed to respond to a Dispatch Instruction issued under an NCSC. Ms Laidlaw replied that this would be a contractual matter between the DSP provider and Western Power. Mr Rhodes queried what would happen if a Dispatch Instruction could be issued for a Trading Interval under either obligation. Mr Clarke responded that the Market Rules gave precedence to dispatch under an NCSC in these circumstances. In response to a question from Mr Pablo Campillos, Ms Laidlaw confirmed that a DSP would only be dispatched for a Trading Interval for one reason.</p> <p data-bbox="329 1629 1222 1850">Mr Campillos considered that the current Market Rules do not prevent System Management from dispatching a DSP on a third consecutive day. Mr Clarke disagreed, considering that clause 7.6.10 imposed this restriction on System Management. There was some discussion about System Management's dispatch of DSPs during the recent Varanus Island incident and the extent to which clause 7.6.10 restricted System Management's dispatch of DSPs.</p> <p data-bbox="329 1881 1222 1913">Ms Laidlaw questioned whether System Management should be able to</p>	

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	<p>request a DSP to reduce consumption at times when its RCOQ was zero, on a voluntary basis without any penalties for non-compliance. Mr Campillos considered that these dispatch requests should be permitted. Mr Clarke noted that System Management definitely wanted the ability to dispatch a DSP under an NCSC without restriction, but in general if a Market Participant was willing to reduce consumption beyond its Reserve Capacity Obligations then System Management should be able request this.</p> <p>Ms Laidlaw noted that PRC_2011_08 proposed changes to clause 4.12.8 to restrict the type of Dispatch Instructions affecting the RCOQ of a DSP. Ms Laidlaw considered that clause 4.12.4 should also be amended as it also covered adjustments to RCOQ in response to Dispatch Instructions. Ms Laidlaw also suggested that clause 4.26.2D be amended to ensure that Capacity Shortfalls were only calculated for a DSP when it was dispatched under clause 7.6.6(e).</p> <p>There was general support from MAC members for the inclusion of the additional amendments suggested by the IMO into PRC_2011_08. The Chair advised that the IMO would provide its suggested drafting to System Management the following day, so that the proposal could be updated prior to its formal submission into the rule change process.</p> <p><i>Action Point: The IMO to send System Management its suggested amendments to the drafting for the Pre Rule Change Proposal: Curtailable Load Dispatch for Network Control Services (PRC_2011_08).</i></p> <p><i>Action Point: System Management to update the Pre Rule Change Proposal: Curtailable Load Dispatch for Network Control Services (PRC_2011_08) to reflect the IMO's suggested drafting amendments and then formally submit the proposal into the rule change process.</i></p>	<p>IMO</p> <p>System Mgmt</p>
6a	<p>MARKET PROCEDURES OVERVIEW</p> <p>The Chair proposed that the development of new IMO Market Procedures resulting from the MEP competitive balancing and LFAS proposal be assigned to the Rules Development Implementation Working Group (RDIWG) rather than the IMO Procedure Change and Development Working Group, as the former group has developed the necessary expertise for this work. The Chair suggested that this approach should also be taken for any new Power System Operation Procedures resulting from the MEP proposal. The MAC agreed to delegate the responsibility for the new MEP Market Procedures to the RDIWG.</p> <p>The MAC noted the overview of recent and upcoming procedure changes.</p>	
7a	<p>WORKING GROUP OVERVIEW AND MEMBERSHIP</p> <p>The MAC noted the Working Group overview.</p> <p>The Chair advised MAC members that Mr Alasdair Macdonald has left IMO. The Chair proposed to delay the replacement of Mr Macdonald as</p>	

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	the Chair of the IMO Procedure Change and Development Working Group and as a member of the System Management Procedures Working Group until after the new Market Development Group Manager, Ms Suzanne Frame, commences work at the IMO next week. The Chair will advise the new appointments at the August 2011 MAC meeting.	
7b	<p>MRCPWG UPDATE</p> <p>Mr Ruthven noted that the last meeting of the Maximum Reserve Capacity Price Working Group (MRCPWG) was held on 20 June 2011. The work of the MRCPWG is largely completed and any further work is likely to be conducted out of session. The IMO is currently finalising a draft Procedure Change Proposal and Market Procedure, taking into consideration the review comments provided by MRCPWG members out of session. The Chair expected that the IMO will present the draft proposal and Market Procedure to the MAC at its August 2011 meeting.</p> <p>Mr Andrew Everett questioned whether under Working Group protocols “agreed” meant unanimous support or merely majority support. Mr Everett noted that Verve Energy had not agreed that there should be no Forced Outage allowance within the MRCP. The Chair noted that the concerns raised by Mr Brad Huppertz at the meeting had been included in the minutes, and that the IMO took care to ensure that where concerns were raised by members in a Working Group meeting these concerns were reflected in the minutes. Mr Campillos noted that the dissenting views were also noted in the footnotes of the MRCPWG update in the MAC meeting papers. Mr Everett agreed that the footnote made clear that the agreement on the relevant issue was not unanimous.</p>	
7c	<p>RDIWG UPDATE</p> <p>The Chair noted that a series of workshops were held over recent weeks to work through the MEP competitive balancing and LFAS proposal. Further workshops were scheduled over the next few weeks, including another RDIWG workshop to be held on Tuesday, 19 July 2011 and a general industry information session to be held on Wednesday, 20 July 2011.</p> <p>The Chair noted that the RDIWG had been advised that its recommendation to proceed with the rule change to remove part of the Net STEM Shortfall calculation had been endorsed by the IMO Board. The Chair also noted that some RDIWG members had attended an informal workshop on the outage approval process. Following the discussion at the workshop the IMO agreed to look at the transparency provisions around outages as part of the MEP project, and consider the timelines for the approval of outages as part of the current Outage Planning Review.</p> <p>Mr Sutherland questioned when the report for the Outage Planning Review was due to be published. The Chair responded that a draft report was currently on his desk. The work had been delayed due to some data issues but the publication of the report was expected soon. The IMO was conscious of the importance of producing a good quality report, given the</p>	

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	importance of the subject. Mr Sutherland considered that it was very important to continue the outage planning work as a high priority.	
8	<p data-bbox="331 352 630 384">GENERAL BUSINESS</p> <p data-bbox="331 401 630 432"><i>Dispatch Advisory 584</i></p> <p data-bbox="331 464 1227 653">Dr Steve Gould noted that System Management declared a High Risk State on 4 July 2011, which lasted for four days. Dr Gould read from Dispatch Advisory 584 that the High Risk State was <i>“called due to the high percentage of coal plant not being available. This has resulted in a higher than expected gas burn from other market participants and out of merit dispatch to conserve gas.”</i></p> <p data-bbox="331 684 1227 873">Dr Gould noted that at no time was there an issue with the dispatch margin. However, 888 MW of coal plant was out of operation, and with the high reliance on gas fuel at this time of year the incident resulted in STEM prices reaching the Maximum STEM Price. Dr Gould asked the MAC whether it considered that there should be something in the security requirements to handle fuel diversity, particularly in winter.</p> <p data-bbox="331 905 1227 1094">Mr Clarke agreed with Dr Gould’s synopsis of the incident. Mr Clarke noted that when determining reserve margins System Management is indifferent to fuel type, and considered that if System Management were to take fuel into account then there would need to be limits set on how much liquid use was permissible before it was necessary to restrict outages.</p> <p data-bbox="331 1125 1227 1346">Mr Cremin noted that currently it was not System Management’s job to see what types of capacity were available, and questioned whether this information was available to Market Participants. Mr Clarke and Dr Gould replied that the IMO published outage details provided by System Management each Scheduling Day on the IMO website. Mr Clarke noted that although gas plant might be shown as available it did not necessarily mean that it was available for 24 hours per day.</p> <p data-bbox="331 1377 1227 1598">Mr Dykstra questioned the reasons for System Management dispatching out of merit to fix a perceived fuel problem. Mr Clarke replied that on this occasion System Management had thought there was a general shortage of gas. Mr Sutherland noted that ERM Power had been asked to generate 24 hours per day, and had needed to confirm their gas supply with DBP. Mr Everett considered that there was not so much a gas shortage, but more just not enough gas to run all the gas units.</p> <p data-bbox="331 1629 1227 1908">In response to a question from the Chair, Dr Gould confirmed that his suggestion was for some inclusion of fuel mix in the reliability criteria, particularly in winter. Mr Everett considered that he would be very concerned at this proposal, suggesting that it might result in difficulties in obtaining a planned outage for a coal plant. Dr Gould replied that he understood Collie had been on an outage for 10 days, and that if this outage could have been delayed it might have resulted in lower prices. There was some discussion about whether the resulting prices were, in fact, incorrect and about how fuel mix considerations could or should be</p>	

Item	Subject	Action
	<p>included in the reliability criteria.</p> <p>Mr Dykstra questioned why System Management had issued Dispatch Advisory 584 if it was not concerned about the fuel mix. Mr Clarke responded that the advisory was needed for out of merit dispatch. Mr Ben Tan questioned why System Management had not been able to dispatch according to the merit order, so that Facilities that could not comply would record Forced Outages. Mr Campillos considered that the out of merit dispatch indicated that System Management was, in fact, taking the fuel mix into consideration.</p> <p>Mr Clarke noted that the immediate availability of gas and the availability of gas over an extended period both needed to be considered. Mr Cremin agreed that a security issue would arise if the market ran out of gas, but did not consider that this would happen frequently. Dr Gould noted that liquid pricing was avoided throughout the incident.</p> <p>The Chair noted that the reliability criterion was due for review by November 2012, and that it would be possible to raise this issue as part of that review. Dr Gould replied that the matter also related to the issue around transparency of outages and that outage information should be immediately available to Market Participants in an accessible format.</p> <p>Mr Sutherland noted that there had not been a general gas shortfall. However, while it was possible to generate using gas 24 hours per day for a short period, it was not commercially viable to do this on a long term basis due to the commercial penalties involved. The Chair suggested that the problem was a shortfall in a gas contract rather than a shortage of gas. Mr Campillos considered that this was a transport constraint rather than a fuel constraint.</p> <p>Mr Sutherland considered that if Market Participants could see upcoming events 1-2 days in advance they would be in a better position to take action. The Chair considered that the MEP balancing proposal should help to address some of these concerns. There was general agreement that the central issue was not with the volume of gas available but with flexibility in contracting for gas supply.</p> <p><i>Carbon Tax Impact</i></p> <p>Mr Sutherland questioned how Market Participants would be able to determine the carbon intensity of the energy they purchased through the WEM. Mr Cremin considered it likely that average intensities would be used. The Chair questioned whether there would be a requirement under the new carbon taxation legislation for buyers of energy to know the level of carbon intensity related to this energy.</p> <p>Mr John Rhodes noted that the Federal Government published an average carbon intensity value for the SWIS. Mr Campillos noted that if average values are used then a buyer of (non-green) electricity will receive the same rating regardless of whether the electricity purchased was generated using gas, coal or other fuels. Mr Cremin expressed concern at using generic values, noting for example the difference in</p>	

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	<p>methane emissions between coal mines in Queensland and Western Australia.</p> <p>The Chair queried why the carbon intensity values were needed. Mr Sutherland responded that participants needed this information when they bought electricity. Mr Dykstra added that retailers might use these values to adjust prices to end customers.</p> <p>The Chair noted that the IMO will be meeting with representatives from the National Electricity Market (NEM) in the near future and offered to make enquiries as to how the NEM was dealing with this issue. The Chair considered that if these values needed to be available then the IMO may need to provide them (for information only) in the future, and that to do this the IMO would need specific carbon intensity details from individual Market Generators.</p> <p><i>New Template for Draft Rule Change Reports</i></p> <p>The Chair noted that the IMO was trialling a new template for Rule Change Reports. The report format had been rationalised to remove repetitions and now included an executive summary. The template will be reviewed by the IMO Board at its 21 July 2011 meeting, and if approved will be used for the Draft Rule Change Report for the Rule Change Proposal: List of Entities Meeting the Acceptable Credit Criteria (RC_2011_04).</p>	
9	<p>NEXT MEETING</p> <p>Meeting No. 41 will be held on Wednesday 10 August 2011 (2.00 – 5.00pm).</p>	
<p>CLOSED: The Chair declared the meeting closed at 3.15 pm.</p>		



Agenda item 4: 2010/11 MAC Action Points

Legend:

Shaded	Shaded action points are actions that have been completed since the last MAC meeting.
Unshaded	Unshaded action points are still being progressed.
Missing	Action items missing in sequence have been completed from previous meetings and subsequently removed from log.

#	Year	Action	Responsibility	Meeting arising	Status/Progress
27	2011	The IMO to work with System Management to investigate System Management's concerns regarding the methodology used by the IMO for Availability Curve calculations under clause 4.5.12 of the Market Rules, prior to the publication of the 2011 Statement of Opportunities.	System Management	May	In progress. Final wrap-up meeting pending.
33	2011	The IMO to consider the suggested amendments to the Pre Rule Change Discussion Paper: Ancillary Services Payment Equations (PRC_2010_27) provided by Mr Stephen MacLean, and update the proposal as appropriate.	IMO	June	In progress.
41	2011	The IMO to send System Management its suggested amendments to the drafting for the Pre Rule Change Proposal: Curtailable Load	IMO	July	Completed

#	Year	Action	Responsibility	Meeting arising	Status/Progress
		Dispatch for Network Control Services (PRC_2011_08).			
42	2011	System Management to update the Pre Rule Change Proposal: Curtailable Load Dispatch for Network Control Services (PRC_2011_08) to reflect the IMO's suggested drafting amendments and then formally submit the proposal into the rule change process.	System Management	July	Completed



Agenda Item 5a: Overview of Recent and Upcoming IMO and System Management Procedure Change Proposals

Legend:

Shaded	Shaded rows indicate procedure changes that have been completed since the last MAC meeting.
Unshaded	Unshaded rows are procedure changes still being progressed.

Change ID	Title	Brief overview of changes	Status	Next Step(s)	Date
IMO Procedure Change Proposals					
PC_2010_03	Monitoring Protocol	The proposed updates are to: <ul style="list-style-type: none"> • Allow the IMO to disclose the identity of System Management as a participant that notifies us of alleged breaches; and • Update to conform to recently adopted style changes. 	• Final Report being prepared	• Final Report to be published	TBA
PC_2010_08	Supplementary Reserve Capacity (SRC)	The proposed new Market Procedure describes the process that the IMO and System Management will follow in: <ul style="list-style-type: none"> • acquiring Eligible Services, • entering into SRC Contracts; • determining the maximum contract value per hour of availability for any contract; and • Details the information that is required to be exchanged. 	• Final Report being prepared	• Final Report to be published	TBA

Change ID	Title	Brief overview of changes	Status	Next Step(s)	Date
		This Market Procedure needs to be published (as required by the Market Rules) and will be revised following any rule changes (if applicable).			
PC_2011_05	Reserve Capacity Testing	<p>The proposed updates are to:</p> <ul style="list-style-type: none"> • Reflect the Amending Rules resulting from RC_2010_09; • Reflect the Required Level concept resulting from RC_2010_12; • Remove the references to the Verification Tests undertaken by DSPs for consistency with the Heads of Power of the Market Procedure provided under clause 4.24.14 of the Market Rules; and • Require a DSP provider to notify in advance the IMO and SM that the Facility will be verifying its performance by observation during a specific Trading Interval. • Some minor and typographical errors 	<ul style="list-style-type: none"> • Final Report being prepared 	<ul style="list-style-type: none"> • Final Report to be published 	TBA
PC_2011_04	Prudential Requirements	<p>The proposed updates are to:</p> <ul style="list-style-type: none"> • Reflect the IMO's new format arising from its Market Procedures project; • Include some minor and typographical amendments to improve the integrity of the Market Procedure; • Include amendments required as a result of two Rule Change Proposals: <ul style="list-style-type: none"> ◦ RC_2010_11¹ Removal of Network Control Services (NCS) Expression of Interest and 	<ul style="list-style-type: none"> • Presented at the 2 February 2011 working group meeting. 	<ul style="list-style-type: none"> • Pending outcomes from RC_2011_04. 	TBA

¹ Refer to www.imowa.com.au/RC_2010_11

Change ID	Title	Brief overview of changes	Status	Next Step(s)	Date
		<p>Tender Process from the Market Rules; and</p> <ul style="list-style-type: none"> RC_2010_36² Acceptable Credit Criteria; <p>The IMO would like to note that the remainder of the Market Procedure is out of scope for the purposes of this Procedure Change Proposal, as the IMO is currently undertaking a more detailed process review regarding Prudential requirements. Any amendments resulting from this review will be presented to the Working Group.</p>			
TBD	Undertaking the LT PASA and conducting a review of the Planning Criterion	<p>The proposed updates are to:</p> <ul style="list-style-type: none"> Reflect the IMO's new format arising from its Market Procedures project; Include some minor and typographical amendments to improve the integrity of the Market Procedure, including re-ordering some sections; and Include both reviews required under clause 4.5.15 of the Market Rules (Planning Criterion and forecasting processes). 	<ul style="list-style-type: none"> Updating procedure as a result of 2 February 2011 working group meeting. 	<ul style="list-style-type: none"> Updated procedure to be presented back to working group for further discussion. 	TBD
TBD	Reserve Capacity Security	<p>The proposed updates are to:</p> <ul style="list-style-type: none"> Reflect the IMO's new format arising from its Market Procedure project; Reflect the broader heads of power for the Market Procedure; and Ensure consistency with the proposed Amending Rules under the following Rule Change Proposals that the IMO is currently progressing: <ul style="list-style-type: none"> Reserve Capacity Security 	<ul style="list-style-type: none"> Presented at the 28 March 2011 working group meeting. 	<ul style="list-style-type: none"> Formal submission into the Procedure process. 	TBA

² Refer to www.imowa.com.au/RC_2010_36

Change ID	Title	Brief overview of changes	Status	Next Step(s)	Date
		(RC_2010_12); <ul style="list-style-type: none"> ○ Certification of Reserve Capacity (RC_2010_14); ○ Capacity Credit Cancellation (RC_2010_28); and ○ Acceptable Credit Criteria (RC_2010_36). 			
System Management Procedure Change Proposals					
PPCL0016	Commissioning and Testing	The proposed update is to amend the procedure to reflect the commenced RC_2010_37 'Equipment Tests'.	• Commenced		1 August 2011
PPCL0017	Facility Outages	The proposed update is to amend the procedure to reflect the commenced RC_2010_05 'Confidentiality of Accepted Outages by System Management'.	• Commenced		1 August 2011
PPCL0018	Dispatch	The proposed updates are to allow for discretion to be exercised in requesting daily dispatch profiles from Market participants with facilities smaller than 30 MW.	• Commenced		1 August 2011
PPCL0019	Monitoring and Reporting Protocol	The proposed updates are to provide further details around how System management will determine and review the annual Tolerance Range and any Facility Tolerance Ranges to apply for the purposes of clause 7.10.1 and 3.21 of the Market Rules. The proposed updates will ensure consistency with the requirements of RC_2009_22 and in particular the new clause 2.13.6K.	• Commenced		1 August 2011



Agenda Item 6a: Overview of Market Rule Changes

Below is a summary of the status of Market Rule Changes that are either currently being progressed by the IMO or have been registered by the IMO as potential Rule Changes to be progressed in the future.

Rule changes: Formally submitted (see appendix 1)	12 September 2011
Fast track with Consultation Period open	0
Standard Rule Changes with 1st Submission Period Open	0
Fast Track Rule Changes with Consultation Period Closed (final report being prepared)	1
Standard Rule Changes with 1st Submission Period Closed (draft report being prepared)	4
Standard Rule Changes with 2nd Submission Period Open	4
Standard Rule Changes with 2nd Submission Period Closed (final report being prepared)	0
Rule Changes - Awaiting Minister's Approval and/or Commencement	7
Total Rule Changes Currently in Progress	16

Potential changes logged by the IMO- Not yet formally submitted	July	August
High Priority (to be formally submitted in the next 3/6 months)	0	0
Medium Priority (may be submitted in the next 6/12 months)	24	24 (+0/-0)
Low Priority (may be submitted in the next 12/18 months)	20	20 (+0/-0)
Potential Rule Changes (H, M and L)	44	45
Minor and typographical (submitted in three batches per year)	55	31 (+1/-25)

Total Potential Rule Changes	99	76
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The changes in the rule change and issues log from July to August have arisen from:

Priority	Issue
High	N/a
Medium	In: <ul style="list-style-type: none"> No issues have been added to the log this month Out: <ul style="list-style-type: none"> No issues have been progressed this month.
Low	In: <ul style="list-style-type: none"> No issues have been added to the log this month Out: <ul style="list-style-type: none"> No issues have been progressed this month.

APPENDIX 1: FORMALLY SUBMITTED RULE CHANGES (Current as of 12 September 2011)**Standard Rule Change with First Submission Period Closed**

ID	Date submitted	Title	Submitter	Next Step	Date
RC_2010_08	15/04/2010	Removal of DDAP uplift when less than facility minimum generation	Griffin Energy	Publish Draft Rule Change Report	19/04/2012
RC_2010_28	01/03/2011	Capacity Credit Cancellation	IMO	Publish Draft Rule Change Report	16/11/2011
RC_2011_02	10/03/2011	Reassessment of Allowable Revenue during a Review Period	ERA	Publish Draft Rule Change Report	26/09/2011
RC_2011_08	14/07/2011	Curtaileable Load Dispatch for NCS and Changes to the RCOQ for Curtaileable Loads under certain circumstances	System Management	Publish Draft Rule Change Report	26/09/2011

Standard Rule Change with Second Submission Period Open

ID	Date submitted	Title	Submitter	Next Step	Date
RC_2010_25	29/11/2010	Calculation of the Capacity Value of Intermittent Generation - Methodology 1 (IMO)	IMO	Submissions close	14/10/2011
RC_2010_37	30/11/2010	Calculation of the Capacity Value of Intermittent Generation - Methodology 2 (Griffin Energy)	Griffin Energy	Submissions close	14/10/2011
RC_2011_04	13/06/2011	List of Entities Meeting the Acceptable Credit Criteria	IMO	Submissions close	19/09/2011
RC_2011_05	09/06/2011	Curtaillable Load Dispatch Clarification	System Management	Submissions close	21/09/2011

Fast Track Rule Change with Consultation Period Closed

ID	Date submitted	Title	Submitter	Next Step	Date
RC_2011_06	19/08/2010	Correction of minor, typographical and manifest errors	IMO	Publish Final Rule Change Report	16/09/2011

Fast Track Rule Change with Final Rule Change Report Published

ID	Date submitted	Title	Submitter	Next Step	Date
RC_2011_07	14/07/2011	Calculation of Net STEM Shortfall for Scheduled Generators	Alinta	Commencement	01/12/2011

Standard Rule Change with Final Rule Change Report Published

ID	Date submitted	Title	Submitter	Next Step	Date
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RC_2010_12	07/11/2010	Required Level and Reserve Capacity Security	IMO	Commencement	01/10/2011
RC_2010_14	06/12/2010	Certification of Reserve Capacity	IMO	Commencement	01/01/2012
RC_2010_22	18/11/2010	Partial Commissioning of Intermittent Generators	IMO	Commencement	01/10/2011
RC_2010_29	02/12/2010	Curtaillable Loads and Demand Side Programmes	IMO	Commencement	01/10/2011
RC_2010_31	18/03/2011	De-registration of Rule Participants who no longer meet registration requirements	IMO	Commencement	TBA
RC_2010_33	17/12/2010	Cost_LR	Verve	Commencement	01/11/2011



Agenda Item 6b: Balancing and LFAS arrangements – process to date and next steps

1. UPDATE

The MAC is due to consider the *Pre Rule Change Proposal: PRC_2011_10: Competitive Balancing and Load Following Market* at its meeting on 14 September 2011.

As the ‘final’ round of submissions from RDIWG members were received only last week, the actual draft Amending Rules will not be ready until the MAC meeting and will be tabled at the meeting.

This paper sets out the process that has been engaged to prepare the Rule Change Proposal and proposed Amending Rules. MAC members are asked to provide comment on the Pre Rule Change Proposal and the proposed Amending Rules by midday Friday next week if they wish to do so. As was previously signalled to the MAC, the intention remains to formally submit the Rule Change Proposal the following week to enable formal consultation to commence.

2. PROCESS TO DATE

The MAC established the Rules Development and Implementation Working Group (RDIWG) in August of 2010 to assess a number of issues affected the WEM including those relating to balancing and load following ancillary services. Following advice from the RDIWG in April, the MAC agreed – by majority – to endorse the implementation of new balancing and Load Following Ancillary Services (LFAS) market arrangements worked up by the RDIWG.

Following endorsement by the IMO Board in April of the new proposed balancing and LFAS market arrangements, work commenced on finalising outstanding design details and preparing Amending Rules to implement the new arrangements.

Design details were worked up by the MEP Project Team and Jim Truesdale from Concept Consulting, and incorporated into the “12 box Balancing and LFAS market” document and presented to the RDIWG for comment. At the same time, Lavan Legal was commissioned by the IMO to prepare the draft Rules using the “12 box Balancing and LFAS market” document.

Two half-day workshops were held in July for RDIWG and interested MAC members to comment on the initial Amending Rule drafts. The RDIWG was then asked to comment on the next two drafts in August.

In total, RDIWG members have had four opportunities to comment on the balancing arrangements and two opportunities to comment on the LFAS arrangements. Submissions were received from several Market Participants each round.

Independent legal advisers have undertaken a legal consistency check of the Pre Rule Change Proposal with the IMO’s Market Rule obligations and have also identified the civil penalty and reviewable decision provisions to be reflected in the Regulations.

A report into the Market Power implications of the new arrangements has also been commissioned and will be released shortly.



3. PROCESS FROM HERE

The Pre Rule Change Proposal which includes the proposed Amending Rules will be considered by the MAC on Wednesday 14 September prior to going to the IMO Board the following day. Following receipt of any comments by **12:00pm on Friday 16 September** for those who wish to provide them, the IMO is aiming to submit the Rule Change Proposal into the Rule Change Process by the end of the week commencing 19 September. The process will then be as follows in accordance with the Market Rules:

Early November:	First round of submissions due.
End of November:	Second Draft of the Rules released.
Late January:	Second round of submissions due.
Mid February:	Final Rule Change report to the Board.
End of March:	Minister's approval.

4. MARKET PROCEDURES

Work is now about to commence on preparing the required new and amended Market Procedures that will sit underneath the Market Rules. A suggested timetable for these is now set out below:

Tuesday Oct 25 – RDIWG workshop on Balancing Facility Requirements and Suspensions, Dispatch, Ancillary Services, Power System Security, Administrative Procedure;

Tuesday November 8 – RDIWG workshop on Balancing Forecasting, Communications and control systems, Facility Outages, some follow-up from workshop 1

Tuesday November 22 – RDIWG workshop on other consequential amendments i.e Reserve Capacity, Prudential Requirements, IM-SM System Interface.

The intent is to then release these procedures for the formal consultation process under the Market Rules during December.

5. RECOMMENDATIONS

It is recommended that the MAC:

a) Note the process followed in preparing the Rule Change Proposal as set out in this note and the consultation that has occurred to date on the design arrangements and proposed Amending Rules;

b) Note the proposed Amending Rules associated with the Pre Rule Change Proposal: PRC_2011_10: Competitive Balancing and Load Following Market will be presented to the MAC at its meeting on 14 September;

c) Note that comments from MAC members are sought by 12:00pm on Friday 16 September before the IMO formally submits the Rule Change Proposal into the formal process next week;

d) Note the intended timeframes going forward.

Market Participant Comments and IMO Responses as at 12 September 2011

Issue/comment	IMO Response
Alinta	
<p>1. Glossary - The definition of "LFAS Market" is given as follows: <i>"Means the market operated under chapter 7B in which Facilities, including the Verve Energy Balancing Portfolio as a single Facility, can meet supply and consumption deviations from contracted bilateral and STEM positions within each Trading Interval."</i> Should not the definition include a reference to deviations from "Balancing Market positions" as LFAS is effectively the real time balancing of the physical system?</p>	<p>The IMO notes that the definition has been changed as part of the responses to the Verve Energy submissions.</p>
<p>2. Clause 2.1.2(e) "provide information to interested parties" - This amendment appears unrelated to the MEP work. Would this clause impose any new obligations on the IMO? E.g. would this clause entitle interested parties to rely on the information provided by the IMO?</p>	<p>This change is intended to reflect that the IMO has a function, reflected in the new Balancing and LFAS provisions, to provide information to the market. The IMO notes that this also reflects its practice of providing training and education to market participants as part of its core functions. The IMO considers that such a clause is appropriate to make it clear that the IMO is able to provide timely and accurate information to Market Participants. The addition of the function does not impose any new obligations on the IMO nor create any further rights or entitlements for Market Participants.</p>
<p>3. Clauses 2.10.17 to 2.10.19 Extension of time for Procedure Change proposals – There doesn't appear to be a timeframe specified in clause 2.10.13 or 2.10.15? Should these references be to 2.10.11 and/or 2.10.14?</p> <p>Alinta also notes that in response to previous comments provided by it, the IMO advised that it intends to make an amendment to the Rules to require the IMO to advise a Market Participant where it decides not to progress a procedure change/replacement proposal, together with reasons. Alinta welcomes such an amendment.</p>	<p>Agreed. The intention is to provide for extensions of time specified in clauses 2.10.7 and 2.10.14. The IMO will amend these clauses in the version of the rules to be tabled at the next MAC meeting</p> <p>The IMO will insert a new clause clauses in the version of the rules to be tabled at the next MAC meeting as follows:</p> <p>2.10.2A. Where the IMO or System Management has decided not to amend or replace a Market Procedure following a notification under clause 2.10.2, the IMO or System Management, as applicable, must publish reasons for that decision.</p>
<p>4. Clause 2.16.4 – Suggest that subclauses (b), (c), (d) and (g) be amended to refer to "...STEM Auctions, the Balancing Market and the LFAS Market...".</p> <p>Suggest that subclause (f) be amended to refer to "...Balancing Market...".</p> <p>Suggest that a new subclause (fA) be added as follows: "correlation between</p>	<p>The IMO has amended clause 2.16.4 to ensure consistency between the different energy markets in the WEM.</p> <p>The IMO notes that under the proposed rules Balancing Submissions will be subject to the same Energy Price Limits that apply to STEM Submissions. However, the IMO considers that setting effective LFAS price limits is impractical and could exclude some potential providers from the LFAS market i.e. it is not possible to know what facilities will be offered into the LFAS market and/or what exposure to balancing will be borne by the MP. Instead,</p>



	Issue/comment	IMO Response
	<p>capacity available in the LFAS Market and the incidence of high prices;”.</p> <p>Importantly – will there be Energy Price Limits for the Balancing Market and the LFAS Market? At least in the short to medium term, it is highly unlikely that there will be effective competition in each of these markets.</p>	<p>the proposed rules require that LFAS Submission prices must not exceed the participant’s reasonable expectation of the incremental cost incurred in providing LFAS. The IMO notes that the onus of proof will be on participants if asked to confirm compliance with this provision.</p>

Agenda Item 6c – Response to RDIWG members comments on PRC 2011 10



	Issue/comment	IMO Response
	has made the relevant submission; and	

<p>7. Clause 2.16.12 – The clause outlining the contents of the report makes no reference to the Balancing Market and/or the LFAS Market. Suggest this clause be amended as follows:</p> <p>2.16.12. A report referred to in clause 2.16.11 must contain <u>but is not limited to</u>:</p> <p>(a) a summary of the information and data compiled by the IMO and the Economic Regulation Authority under clause 2.16.1;</p> <p>(b) the Economic Regulation Authority's assessment of the effectiveness of the market, including the effectiveness of the IMO and System Management in carrying out their functions, with discussion of each of:</p> <ul style="list-style-type: none"> i. the Reserve Capacity market; ii. the market for bilateral contracts for capacity and energy; iii. the STEM; iv. <u>the Balancing Market</u>; <u>ivA. the LFAS Market</u>; v. the dispatch process; vi. planning processes; and vii. the administration of the market, including the Market Rule change process; 	<p>The IMO notes that it is still possible in the proposed balancing Market for Balancing to be provided by "Non Balancing Facilities" (DSPs and Dispatchable loads), therefore the IMO contends that reducing the scope of clause 2.16.12(b)(iv) is not required.</p> <p>The IMO agrees with Alinta's proposed amendments to the opening statement in clause 2.16.12, and the addition of subclause (ivA).</p>
<p>8. Clauses 2.34.7A and 2.34.7B – Amend references from "days" to "Business Days"</p>	<p>Agreed, the IMO will amend this clause in the version of the rules to be tabled at the next MAC meeting</p>
<p>9. Clause 2.34.7C(d) – suggest adding "...to LFAS Standing Data." At the end of the subclause.</p>	<p>Agreed, the IMO will amend this clause in the version of the rules to be tabled at the next MAC meeting</p>
<p>10. Clause 6.12.1(f) – Appendix 1 Standing Data appears to largely refer to 'prices' rather than 'payments'. Suggest reference to 'payments' in the first line of this clause be amended accordingly.</p>	<p>Agreed, the IMO will amend this clause in the version of the rules to be tabled at the next MAC meeting</p>
<p>11. Clause 6.16.1A – Note that clauses 6.16A and 6.16B make references to 'Sent Out Metered Schedules' rather than 'Balancing Facility Sent Out Metered Schedules'. Suggest this clause be amended accordingly.</p>	<p>Agreed, the IMO will amend this clause in the version of the rules to be tabled at the next MAC meeting</p>
<p>12. Clause 6.20.4 – The reference to a Minimum STEM price has been removed. Why is this?</p>	<p>The Minimum STEM price is no longer defined as the negative of the maximum STEM price but has been amended in the Glossary to be negative \$1,000.00 per MW.</p>
<p>13. Clause 7.3.2 – This clause is proposed to be deleted, but wouldn't it continue to be relevant? Forced Outage could arise close to real time?</p>	<p>The IMO acknowledges that a Forced Outage could arise close to real time. However this clause has been deleted because a fundamental principle of the balancing market is that,</p>

		<p>unless SM is doing so to avoid a high risk state, SM must dispatch in accordance with the BMO. This is important for Market Participants as they will be making financial decisions on this assumption and be exposed to the risk for <i>not</i> making decisions on this assumption (e.g. civil penalty clauses). Deletion of this clause also enhances the IMO's compliance regime when monitoring SMs dispatch processes.</p> <p>The IMO notes that the proposed rules require SM to dispatch in accordance with a new regime established under clause 7.6, which gives prevalence to the BMO <i>except when that gives rise to a potential High Risk State</i> and as such this rule is not relevant and could confuse and detract from the new regime. Please see the SM response for an example of how the IMO expects such a situation to be dealt with.</p>
	14. Clause 7.7.6(b) – should 'advice' provided where the Facility cannot fully comply with the Dispatch Instruction or Operating Instruction also be required to be provided in the time and manner set out in the Power System Operation Procedure?	The IMO is not clear on the issue here. The intention is for the advice to be provided as suggested by Alinta.
	15. Clause 7A.1.8 – Alinta notes the IMO's advice that it intends to include a proposed amendment to require it to publish the results of any decision it makes to impose conditions or allow exemptions.	Agreed, the IMO will so amend rules in the version to be tabled at the next MAC meeting

Issue/comment	IMO Response
ERA	
<p>1) Inclusion of new data items in the Market Surveillance Data Catalogue (clause 2.16.2 of the Market Rules)</p> <p>The Secretariat notes the proposed amendments to clause 2.16.2 (i.e. the Market Surveillance Data Catalogue (MSDC)) reflect a preliminary list (or first pass) of new data items to be included in the MSDC as a result of the introduction of the proposed new Balancing and LFAS markets.</p> <p>The Secretariat considers the MSDC needs to reflect all relevant ex-ante, ex-post and settlement data, as well as any other clearly identifiable metrics that will be required by the ERA to monitor the effectiveness of these new markets. The Secretariat considers that the revised drafting to clause 2.16.2 reflected in version 4 of the draft rules provide a good foundation, however, the Secretariat will seek to work with the IMO/MEP team in the coming weeks to refine the amendments to this clause to ensure all essential data and metrics required for monitoring the new markets effectiveness are included.</p> <p>For instance, other data that need to be considered for inclusion in the MSDC as a result of the introduction of these new markets are:</p> <ul style="list-style-type: none"> • Balancing Merit Order • Balancing Price-Quantity Pairs (i.e. in Balancing Submissions) • Reasons submitted by Participants for changes after Gate Closure • Timing of changes to Balancing Submissions • Constrained on/off quantities and price • Dispatch Advisories and System Management's actions taken under Dispatch Advisories • Market Participant's responses to Dispatch Instructions (including reporting of non-compliance with Dispatch Instructions) • Forecast accuracy from System Management • Forecast accuracy in Market Participant's Balancing Submissions • Information from Participants on Balancing Facility Requirements • Information from Participants on Load Following Ancillary Services Facility Requirements • Out of Merit Quantities (settlement value) 	<p>The IMO agrees with the ERA that all relevant and essential data should be included in the MSDC. However, the IMO notes that some of the material in the dot point list provided by the ERA would appear to already be covered by the existing list, for example the Balancing Submissions and LFAS Submissions would contain Balancing and LFAS Price-Quantity Pairs. Further, some of the material is not presently available, such as real time SCADA and meter data. The IMO is happy to work with the ERA to enable it to come up with a further list of information to be included in clause 2.16.2.</p>



	Issue/comment	IMO Response
	<ul style="list-style-type: none"> • Real time SCADA and meter data • Standing Data changes. 	

Issue/comment	IMO Response
<p>2) Proposal to move the Market Surveillance Data Catalogue to a (new) Market Procedure (clauses 2.16.2 and 2.16.3 of the Market Rules)</p> <p>On 1 September 2011, the IMO emailed to the Rules Development Implementation Working Group (RDIWG) members a document listing the Market Procedures that require amendment/development and sought members' views on the priorities and possible gaps (please see MS Word document titled 'Market Procedure list as at 31 August.doc').</p> <p>Included on page one of this document is an entry for the 'Market Surveillance Data Catalogue'. It is unclear from this document whether the IMO/MEP team intend to either:</p> <ul style="list-style-type: none"> • develop a new Market Procedure which contains the MSDC, and thereby remove the MSDC from the Market Rules; or • signal to RDIWG members this is a task still being worked on, but there is no intention for the MSDC to be removed from the Market Rules to a Market Procedure. <p>The Secretariat would appreciate it if the IMO could kindly clarify this matter.</p> <p>The Secretariat notes it does not consider it appropriate to move these specific clauses from the Market Rules into a Market Procedure and doing so would be cause for serious concern.</p>	<p>The IMO notes that the "Market Procedure List" presented to RDIWG members is a list of Market Procedures and other pieces of information required to be "published" or "prescribed" by the IMO or SM under the proposed Balancing Market rules. The IMO apologises for any confusion and confirms that the MSDC clauses are not proposed to be moved into a market procedure.</p>
<p>3) Support RDIWG member's proposed amendments to clause 2.16.4</p> <p>The Secretariat agrees in principle with Mr Corey Dykstra's suggested amendments to clause 2.16.4. Mr Dykstra's suggested amendments are:</p> <ul style="list-style-type: none"> - <i>subclauses (b), (c), (d) and (g) be amended to refer to "...STEM Auctions, the Balancing Market and the LFAS Market...";</i> - <i>subclause (f) be amended to refer to "...Balancing Market..."; and</i> 	<p>The IMO has amended clause 2.16.4 to ensure consistency between the different energy markets in the WEM.</p>

	Issue/comment	IMO Response
	<ul style="list-style-type: none">- a new subclause (fA) be added as follows: “correlation between capacity available [Secretariat comment: offered may be more appropriate than available?] in the LFAS Market and the incidence of high prices;”.	

<p>4) Include specific references to the ERA monitoring inappropriate and anomalous market behaviour in the Balancing and LFAS markets (clause 2.16.9 of the Market Rules)</p> <p>The Secretariat considers that it is important there are specific references in clause 2.16.9 that require the ERA to monitor inappropriate and anomalous market behaviour in both the Balancing and LFAS markets.</p> <p>The Secretariat agrees in principle with Mr Dykstra's suggested amendments to subclauses 2.16.9(b)(ii) and 2.16.9(b)(iii) to explicitly cover these new markets as a part of the ERA's monitoring function in the Wholesale Electricity Market, noting that the drafting of subclause 2.16.9(b)(iii) may require further amendment to accommodate that LFAS Submissions are not currently constrained to reflect a Market Participant's reasonable expectation of SRMC. Mr Dykstra's suggested amendments are as follows:</p> <p><i>“ii. prices offered by a Market Generator in its Balancing Submission that exceed the Market Generator's reasonable expectation of the short run marginal cost of generating the relevant electricity;</i></p> <p><i>iii. prices offered by a Market Generator in its LFAS Submission that exceed the Market Generator's reasonable expectation of the short run marginal cost of generating the relevant electricity”</i></p>	<p>The IMO has amended clause 2.16.4 to ensure consistency between the different energy markets in the WEM.</p> <p>The IMO notes that to ensure this consistency the IMO has incorporated the following provisions in clause 2.16.9(b)(iii) to recognise the requirements for LFAS submissions in place of an explicit SRMC clause:</p> <p><u>“prices offered by a Market Generator in its LFAS Submission that exceed the Market Generator's reasonable expectation of the incremental cost incurred by the LFAS Facility in providing the relevant LFAS “</u></p>
<p>5) Support RDIWG member's proposed amendments to clauses 2.16.9A and 2.16.9B</p> <p>The Secretariat agrees in principle with Mr Dykstra's suggested amendments to clauses 2.16.9A and 2.16.9B, noting that the drafting of clause 2.16.9B may require further amendments to accommodate: (i) the proposed modified SRMC pricing constraint within Balancing Submissions, i.e. as compared to submitted Portfolio Supply Curves; and (ii) LFAS Submissions are not currently constrained to reflect a Market Participant's reasonable expectation of SRMC. Mr Dykstra's suggested amendments are:</p> <p><i>“2.16.9A. The IMO must assist the monitoring activities identified in</i></p>	<p>The IMO has amended clause 2.16.4 to ensure consistency between the different energy markets in the WEM.</p> <p>The IMO notes that to ensure this consistency the IMO has incorporated the following provisions in clause 2.16.9A to recognise the differing requirements of the various markets:</p> <p><u>“The IMO must assist the monitoring activities identified in clauses 2.16.9(b)(i), (ii) and (iii) by examining prices in relevant STEM Ssubmissions, including Sstanding STEM Ssubmissions, used in forming the relevant bids and offers STEM Bids and STEM Offers and prices in price-quantity pairs against information collected from Rule Participants in accordance with clauses 2.16.6 and 2.16.7.”</u></p> <p>The IMO notes that to ensure this consistency the IMO has incorporated the following provisions in clause 2.16.9B to recognise the differing requirements of the various markets:</p>

<p>2.16.9B</p> <p><i>Where the IMO concludes that prices offered by a Market Generator in its Portfolio Supply Curve, Balancing Submission or LFAS Submission may not reflect the Market Generator's reasonable expectation of the short run marginal cost of generating the relevant electricity and the IMO considers that the behaviour relates to market power the IMO must:</i></p> <p>...</p>	<p>2.16.9B. Where the IMO concludes that prices offered by a Market Generator in its:</p> <p>(a) Portfolio Supply Curve <u>or its Balancing Submission</u> may not reflect the Market Generator's reasonable expectation of the short run marginal cost of generating the relevant electricity; <u>or</u></p> <p>(b) <u>LFAS Submission may exceed the Market Generator's reasonable expectation of the incremental cost incurred by the LFAS Facility in providing the relevant LFAS.</u></p> <p>and the IMO considers that the behaviour relates to market power the IMO must:</p> <p>(ac) as soon as practicable, request an explanation from the Market Participant which has made the relevant STEM Submission, <u>Balancing Submission or LFAS Submission</u>; and</p> <p>(bd) advise the Economic Regulation Authority of its conclusions. The IMO advice must outline the reasons for the IMO's conclusions.</p>
<p>6) Include a reference to Ancillary Services under the ERA's reporting requirement of the markets effectiveness (clause 2.16.12 of the Market Rules)</p> <p>The Secretariat considers that it is appropriate that Ancillary Services is explicitly listed in the ERA's reporting requirements regarding market effectiveness under sub-clause 2.16.12 (b) of the proposed draft rules to coincide with the introduction of the LFAS market.</p>	<p>The IMO has amended clause 2.16.12 to ensure consistency between the different energy markets in the WEM.</p>

7) The application of Short Run Marginal Cost in the Balancing market (clause 7A.2.16 of the proposed draft rules)

Point 1

The Secretariat notes that clause 7A.2.16 of the proposed draft rules (version 4) contains a modified application of the short run marginal cost (**SRMC**) rule in the Balancing market to that applied in the Short Term Energy Market (**STEM**) (i.e. under clause 6.6.3 of the Market Rules), which places the following constraint on pricing in Balancing Submissions:

*“...A Market Participant must not, for any Trading Interval, offer prices within its Balancing Submission **in excess of** the Market Participants reasonable expectation of the SRMC of the Balancing Facility, when such behaviour relates to market power.”* [Secretariat emphasis added]

The Secretariat considers that a Market Participant may be able to exercise market power by submitting prices below its SRMC. The Secretariat would appreciate the IMO clarifying the rationale for including the wording ‘in excess of’ for application in the Balancing market in place of ‘that do not reflect’, i.e. as is applied in the STEM under clause 6.6.3 of the Market Rules. The Secretariat notes the application of the wording in the STEM has the effect of prohibiting Market Participants from exercising market power through submitting prices above *or below* their SRMC.

Point 2

Regarding the same clause in the proposed draft rules, the Secretariat notes a further modification over that which is applied in the STEM under clause 6.6.3 of the Market Rules, which is highlighted below:

*“...A Market Participant must not, for any Trading Interval, offer prices within its Balancing Submission **in excess of** the Market Participants reasonable expectation of the SRMC of **the Balancing Facility**, when such behaviour relates to market power.”* [Secretariat emphasis added]

In clause 6.6.3 of the Market Rules, rather than identifying ‘the [specific] Balancing Facility’, the wording is instead the more generic ‘generating the relevant electricity’. The Secretariat considers the more specific reference to the ‘Balancing

Point 1

The RDIWG chose to pursue a Balancing Market design where Market Participants will manage intertemporal factors (start-up/ shutdown/ fuel constraints etc) and reflect their intentions in simple (price-quantity) Balancing Submissions. Participation in such a market design at times requires bidding below SRMC to ensure that facilities are dispatched consistent with their physical characteristics. For example, to ensure the commitment of a facility must be managed prior to gate closure. A rule requiring a Market Participant to offer prices at SRMC would therefore be inappropriate.

Point 2

The IMO notes that clause 7A.1.10 states that “for the purposes of this chapter 7A only, unless otherwise indicated, the Verve Balancing Facility is to be treated as a single balancing Facility and references to balancing facility in this chapter 7A are to be read as including reference to the Verve Energy Balancing Facility”. Therefore the IMO considers that clause 7A.2.16 includes the Verve Energy Balancing Portfolio.

	<p>Facility' in the proposed draft rules could be problematic, as the current draft glossary (version 4) defines a Balancing Facility as not including the Verve Energy Balancing Portfolio. However, it appears that the IMO's intent is to have this clause apply to all of Verve Energy's facilities that are comprised in its Balancing Submissions (i.e. either Stand Alone Facilities or that are in the Verve Energy Balancing Portfolio). For further information on the IMO's intent on this matter, please see the IMO's relevant responses to RDIWG members comments that are noted in RDIWG meeting 16 papers.</p>	
8)	<p>The absence of the application of Short Run Marginal Cost in the LFAS market (clause 7B.2.13 of the proposed draft rules)</p> <p>The Secretariat would appreciate the IMO clarifying the rationale for pricing in LFAS submissions not needing to reflect a Market Participants' reasonable expectation of SRMC when such behaviour relates to market power under clause 7B.2.13.</p>	<p>The IMO notes that the LFAS market requires participants to submit to the LFAS market prices that reflect their expectation of the "incremental cost" of providing LFAS compared to the expected revenue they will receive from the balancing market.</p>

Issue/comment	IMO Response
Griffin	
<p>Generic Issues Related to the Balancing Market:</p> <p><u>Market Transparency</u> (Publishing of Facility Meter Data): The issue was raised at RDIWG meeting 13 as to whether or not all generating facility meter data should be published as soon as it is available? Griffin supports the publishing of meter data as soon as possible as we believe the transparency this will provide will promote more effective and efficient decision making. Amongst other things some immediate benefits would appear to be:</p> <ul style="list-style-type: none"> - The reasons for “High risk state” being declared may be more apparent. - Participants will be better able to gauge when to run above or below 200MW (a question of financial efficiency particularly when spinning reserve charges are taken into account. - Ability to gauge price sensitivity relative to who is running – leading to potentially better outage planning. 	<p>The IMO notes that it has not proposed to make this information confidential, which, under the proposed changes to Chapter 10, would mean that such information would be deemed public and therefore be able to be published by the IMO.</p>
<p><u>Certified Reserve Capacity</u> is now contingent on being able to meet the Balancing Facility Requirements (Proposed rule 4.11.10). The components of what constitutes the Balancing Facility Requirements are currently undefined (6th Sept 2011). Certified Reserve Capacity (income) is a major component which underpins the commercial viability of many existing generation providers. Griffin would like to express concern that progressing the proposed rules into the formal rule change process, ahead of considering/agreeing the Balancing Facility Requirements poses risks to large commercial ventures. (it feels very cart-before-horse).</p> <p>Griffin feels that a list of the criteria should be published and discussed as a priority in the very near future.</p>	<p>The IMO notes that at RDIWG meeting 16 members were asked to comment on the “market procedures list” provided by the IMO. In light of submissions received to-date, the Balancing Facility Requirements will be one of the first procedures to be developed.</p>

	<p><u>Civil Penalties</u> are being proposed for:</p> <ul style="list-style-type: none"> - Refusal (and failure) to follow a dispatch instruction. - Failure to resubmit a balancing submission when a unit cannot produce its full capability. <p>The criteria upon which a case may be pursued in civil courts need to be clarified. A generator/participant could unintentionally fail to follow a dispatch instruction (eg. The unit may not respond as expected when trying to respond), or lack information to accurately make what, in hindsight, should have been an updated balancing submission, civil penalties would not seem warranted. As market penalties will apply to participants failing to meet dispatch obligations, the concept and criteria of additional penalties needs to be considered and clarified.</p> <ul style="list-style-type: none"> • How will the IMO assess Verve's compliance resubmitting balancing submissions in the event on of its portfolio plants becomes un/available? • Failure to follow a dispatch instruction if you had information available showing the plant couldn't dispatch, and haven't taken that supply out of the market should warrant an investigation and potential civil action. If however you attempt to dispatch and trip, or run into constraints, you should be able to advise SM and update your balancing submission without attracting civil action. How will the IMO determine intent? • There are numerous reasons why a balancing submission may take a while to update when a potential outage is or has occurred. (eg. Assessment of cause and likely return of capability etc often takes an indeterminate amount of time) • Consider a pro forma questionnaire (in the same way the ASX queries companies when they potentially breach a rule) to allow the generator to respond and again explain intent and outcome. 	<p>The IMO notes that it is not proposed to seek civil penalties in a civil court. Civil penalty provisions and the financial penalties that can attach to them are set in the Electricity Industry (wholesale Electricity Market) Regulations 2004. The IMO would apply to the ERB to have a financial penalty applied for a breach of a rule that is designated as a civil penalty provision.</p> <p>Applications to the ERB do not automatically follow for every breach of a civil penalty provision. The IMO investigates each event and decides whether it believes a penalty would be justified in all of the circumstances. The participant concerned is given the opportunity to make submissions on any matters that it considers relevant, and that it wishes the IMO to take into account.</p> <p>Before the ERB orders that a participant pay a civil penalty (in fact, before it makes any order on an application) the ERB must consider the matters that are specified in regulation 33(4). Among the matters that the ERB must consider are the nature and extent of the contravention, and an surrounding circumstances.</p>
	<p><u>Timing of Balancing Market Reform</u>: Concern has been raised by many parties regarding the timing of delivery and compliance with the proposed Balancing rules. Griffin wished to raise the following concerns around the proposed delivery date of 1st April 2012:</p> <ul style="list-style-type: none"> - Market participants are being asked to assess & agree to new rules 	<p>At this stage, the IMO intends having new balancing and LFAS arrangements in place from April of next year given the costs of delays. But some functionality will need to be rolled out after that for System Management and the IMO is also considering a "grace" period for compliance with some of the new requirements to allow MPs to adjust.</p>

	<p>whose form and function will be defined by detail not yet apparent (PSOPs in particular).</p> <ul style="list-style-type: none"> - The time lines for extrapolating all changes (to submissions, reports, settlements, and physical systems) from the revised Market Rules and PSOP; scoping & specifying the changes, requesting funding and resource approval; building new systems; testing and implementing systems appears unrealistic. Experience shows it is wise to acknowledge that IT projects and general project work suffer serious delay over the December & January period. - Griffin propose the following delivery dates: <ul style="list-style-type: none"> - Ability to perform all market submissions (Bilateral, STEM, Resource Plan and Balancing) and settle by <u>1st April 2012.</u> - Ability to comply with System management issues Dispatch Orders (and Balancing Facility Requirement) be the <u>1st of July 2012.</u> 	
	<p><u>Specific issues based on DRAFT 4.0</u></p> <p>MR 2.10.17, 2.10.18, 2.10.19:</p> <ul style="list-style-type: none"> - Rules relating to extending the timelines of Proposed Rule Changes been introduced. They do not appear to be specifically linked to Balancing Market reform. Should these rules be processed as a separate rule change? <ul style="list-style-type: none"> - Regarding the rules themselves: There no maximum time to the extension in the rules? Griffin proposes that an extension greater than 30 days requires a majority consensus of voting MAC members. 	<p>The IMO notes that these clauses are part of a broader change to the Procedure Change process, part of which was regrettably left out of the version 4.0 that was sent to the RDIWG.</p> <p>The IMO considers that the enhanced Procedure Change process is required as part of the MEP given the increased reliance on Market Procedures and PSOPs proposed under the new Balancing Market. Specifically, the changes in MR 2.10.17, 2.10.18, 2.10.19 are required to enable the IMO to cope with a potential increase in procedure changes.</p>



	Is MR 2.13.13A necessary? MR 2.13.13 implies a participant must cooperate (and therefore not mislead) the IMO.	Given the significantly increased reliance on compliance monitoring and enforcement by the IMO, the IMO contends that such an obligation should be explicit to enable and enhance the effectiveness of the IMO compliance regime
	<p>Rule 7.7 [Dispatch Instruction]</p> <ul style="list-style-type: none"> - Swap position of 7.7.1AA and 7.7.1A - MR 7.7.6A Where SM does not receive confirmation that a MP has received a Dispatch Instruction the MP is <u>deemed to have refused to comply with the Dispatch Instruction</u>. Should this clause then specify the treatment under this clause in this case? I.e. Is the treatment therefore that an allegation of a breach may therefore be alleged? 	<p>-Agreed</p> <p>- The IMO has amended this clause in light of the SM comments. However in relation to the potential interpretation of this clause as a breach of the requirement to confirm and comply with a DI – Griffin is correct that such a failure to answer would be interpreted as a breach of these requirements. As outlined above this would not automatically be exposed to a civil penalty. Such a decision would be determined based on all available information and subject to the provisions in the regulations.</p>

	<p>Rule 7.9.6A [Decommittment]</p> <ul style="list-style-type: none"> - Paraphrased: A Market Participant may not decommit a unit without permission if it cannot recommit within 4 hours. A facility may be decommitted (and not be able to recommit for 4 hours) as a result of balancing market outcomes and the ability to advise System Management in accordance with the rules may not present itself. 	<p>The IMO notes that MPs will have a reasonable level of control over the timing of decommitment/commitment decisions through the construction of their Balancing Submissions in response to Balancing Market forecasts. It will often be practical for MPs to confirm their intentions with System Management ahead of time and to the extent forecasts indicate a decommitment that will be visible both to SM and the MP in market forecasts.</p> <p>However, the IMO notes that the rule requires MPS to obtain SM approval before decommitting a facility “....to such an extent that it will <i>not be available</i> to be synchronised for four hours or more....”. While the timing of any subsequent commitment will not be entirely under the control of the MP, depending on its Balancing Submission, maintaining the facility’s availability to be committed should be.</p> <p>Furthermore the IMO is will include a revised version of clause 7.9.6 to address Griffins concerns.</p>
	<p>Rule 7A.1.6 [Balancing Market, MP requirement that facilities meet BFR]</p> <ul style="list-style-type: none"> - The lack of detail around the Balancing Facility Requirements is a concern. Griffin would like to stress its desire to have visibility of these requirements asap. 	<p>Noted, see response above</p>
	<p>Rule 7A.1.8 [Balancing Market, If a MP facility does not meet BFR]</p> <ul style="list-style-type: none"> - Again, as the Balancing Facility Requirements are unknown, it is hard to assess the likelihood of this rule being invoked. 	<p>Noted, see response above</p>
	<p>Rule 7A.2.3 [Balancing Market, Operating Instruction or Test]</p> <ul style="list-style-type: none"> - MP forced to make a balancing submission at –ve STEM price (or a price determined by the IMO. What limits are imposed on the IMO as to <u>frequency and duration of the Tests or Operating Instruction</u>? - Griffin recommends a clause that states Tests only be ordered if outcomes will provide an unambiguous result. 	<p>An OI can only be arranged and issued in situations permitted by the rules. The IMO notes that the reasons for which an OI may be arranged or issued already exist in the market rules (e.g. Reserve Capacity Test, NCS contracts, ect) and the application of the requirement to bid at the negative cap simply mirrors the current rules and reflects the payment streams – namely whereby Facilities are given dispatch priority and receive the balancing price(formerly MCAP). Therefore the IMO has not proposed anything other than procedural changes to the OI rules.</p>
	<p>Rule 7A.2.7 [Revised Balancing Submissions]</p> <ul style="list-style-type: none"> - This rule states that a Market Participant must keep a record of <u>any</u> change to a balancing submission including details of any changed circumstance 	<p>The IMO agrees with Griffins interpretation</p>



	and impacts of the circumstance, that gave rise to the change of submission.	
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	<p>Rule 7A.3.3 [BMO Tie break]</p> <p><u>Tie-breaker arrangements:</u> The issue arises where two or more participants have turn-up or turn-down energy at the same price. How then should it be decided which of the facilities will provide the balancing energy adjustment? The current proposal suggests assigning the lowest priority to facilities that do not meet Balancing Facility Requirements, and those providing Ancillary Services – after that a random number is used to assign priority to a facility for that day.</p> <p>Griffin supports the parts a, b, and c of this proposed rule however Griffin would like to see economic or practical grounds for breaking ties ahead of a random number.</p> <p>Griffin proposes that the IMO seek to initially use <u>economic outcomes</u> ahead of a random number. For example - where there is a price tie:</p> <ul style="list-style-type: none"> - For turn up energy prioritise <u>units already synchronised ahead of units not synchronised</u>. - For turn down balancing prioritise <u>fuel type</u>: diesel plant first, then gas plant, coal plant etc - For turn up balancing prioritise <u>fuel type</u>: coal first, then gas plant, then diesel etc - For <u>turn down</u> balancing prioritise units <u>generating the highest sent out energy first</u> (reduce spinning reserve requirements/charges) - For <u>turn up</u> balancing prioritise units generating the lowest sent out energy first (reduce spinning reserve requirements/charges) - Consider circumstances in which higher ramp rates may also benefit the system ahead of lower ramp rates 	<p>The IMO notes that an early decision of the RDIWG was that the balancing market will be based on simple rather than complex bids. i.e. simple price-quantity bids and offers as opposed to complex bids and offers incorporating detailed facility characteristics. Griffin's proposal is inconsistent with this approach.</p> <p>The IMO also notes that complex tie breaker arrangements would be unwarranted given it is likely to be required infrequently. i.e. participants will be able to update their submissions in response to market forecasts and the proposal to reduce the negative Cap in the balancing market will enable greater differentiate between simple price-quantity based submissions..</p> <p>Further amendments have been made to the clause in the version to be tabled at the MAC meeting, seeking to clarify the operation of the tie break arrangements.</p>
	<p>Rule 7A.3.4 [BMO merit order]</p> <ul style="list-style-type: none"> - This clause does not appear to make sense. It has conditions ("where") but no treatment ("then"). 	<p>The term "so that" is the treatment term in clauses 7A.3.4(a) and (b) and refers to the operative, beginning part of the cls.</p>
	<p>Rule 7A.3.16</p>	<p>The IMO agrees with griffin that the current drafting of this clause is confusing and has amended the drafting to ensure it is consistent with the following intention:</p>



	<ul style="list-style-type: none">- This clause is complicated and in fact, does not appear to make sense. It appears to list the conditions (in a confusing manner) without the treatment?	<p>Subclause (a): The intent of this clause is to ensure that the IMO publishes individual forecast quantities to each MP (subclause a) – this is to ensure that confidentiality is maintained.</p> <p>Subclause (b) This clause requires the IMO to publish a schedule of each market participants expected quantities to SM along with the forecast BMO.</p>

Issue/comment		IMO Response
Verve – 3 rd round		
1.	Now that we have the LFAS design scoped out it might be desirable for Market Generators to comment on how attractive the design is and what could make the LFAS design more attractive. We need to have active participation in LFAS for the investment in the system. Otherwise a simpler design could be desirable	The IMO has already consulted RDIWG members on the LFAS design and that the intent of the proposal is to enable broader participation in both balancing and LFAS. To ensure this is achieved efficiently, it is necessary to take account of interactions between balancing and LFAS, which inevitably requires a degree of complexity. In this regard, the IMO considers that that the proposed LFAS design is appropriate.
2.	Would LFAS prices be in \$/MW rather than \$/MWh as suggested in the definition for LFAS Downwards Price-Quantity Pair? Thus, for example, in clause 7B.2.13 the incremental cost would be associated with the availability cost rather than energy	Agreed. The IMO has changed the wording of the LFAS Price Quantity Pairs to reflect that price quantity pairs are in \$/MW. LFAS submissions are to reflect the “incremental cost”, in \$/MW, of providing LFAS which are not able to be recovered from balancing market revenues associated with LFAS provision.
3.	In various places there is reference to output change for LFAS operation - relating LFAS Enablement Band to MWh. How is this change determined in: <ul style="list-style-type: none"> • Clause 6.16A.1(b)iii1 • Clause 6.16A.3(b)iii1 • Clause 6.16B.1(b)ii2 • Clause 6.16B.2(b)ii2 • Clause 6.17.3(e) • Clause 6.17.4(e) • Clause 6.17.5(e) and • Clause 6.17.6A(e) 	Each of these clauses refers to the maximum amount of energy that could have been produced if a participant was operating at the limit of the cleared LFAS band in the interval. E.g. if a facility is cleared for +/- 30MW of LFAS in a half hour Trading Interval the maximum amount of energy they could provide from the LFAS range would be +/- 15MWh, so for the purposes of these clauses 15MWh would be used. LFAS quantities are expressed in MWh in these clauses because they relate to the calculation of balancing quantities which qualify for constrained on/ off compensation.
4.	What is the rationale for the choice of the start Trading Interval in the LFAS Horizons? Why is it more advantageous than starting one Trading Interval later?	The rationale behind this was to allow LFAS horizons to line up with a trading day so that forecasts provided to participants can always incorporate expected LFAS quantities.
5.	LFAS Market definition does not appear to capture the frequency keeping nature of LFAS that really distinguishes the product	Agreed – Glossary updated to refer to the provision of Load Following Services.
6.	LFAS Merit Order is capitalised in Version 3 text but is not included in Glossary	Noted – Glossary updated
7.	We are also not sure how the single direction LFAS will interact with balancing. Say the system load is expected to be 2000 MW for a particular Trading Interval. Say a 200-MW facility with a Minimum Stable Generation of 100 MW offers a Downward 50 MW LFAS and is selected. This generator will then have to price itself to be pre-loaded to 150 MW. In balancing the other generators will be dispatched to 1850 MW. The LFAS action of this generator will result in this generator averaging, say, 125 MW over the Trading Interval or 62.5 MWh. This will require the other generators to generate 1875 MW which is 25 MW more than planned, 12.5 MWh more. Presumably the Upwards LFAS will work the other way but there is no certainty that they will cancel out exactly as the LFAS requirements could be unequal upwards and downwards. Will this have to be considered in scheduling balancing?	The IMO notes that leading into an interval, SM will dispatch balancing generators in accordance with the BMO to meet the expected trend in demand less intermittent generation during the interval. Balancing generators will adjust their facilities in line with SM instructions and LFAS will compensate for inevitable differences between the dispatch of balancing generation and actual requirements. In doing so, downwards LFAS/AGC will contribute energy when actual requirements are less than dispatched balancing generation (and vice versa). LFAS requirements are procured on a symmetrical up/down basis but the net contribution from LFAS facilities in any interval to balancing is unlikely to be zero given the random nature of demand and intermittent generation (and therefore system frequency) variations. It is reasonable that SM takes account of where LFAS providers are at the time it formulates dispatch instructions for balancing.

	Issue/comment	IMO Response
8.	If the Market Generator has to price his generator offered for LFAS to be sure that it is cleared in balancing to the pre-loading level, he could be out of pocket if the capacity is not selected for LFAS but cleared in balancing and the Balancing Price is lower than his true cost. The affected Market Generator will revise its Balancing Submission. Verve Energy will however be unable to revise its Balancing Submission	Upon being cleared in the LFAS market a Market Generator (other than the Verve portfolio) will have their positions in the BMO changed to ensure that they are dispatched to a level consistent with the provision of the cleared LFAS amount, so will not need to adjust balancing submissions for those intervals. However a Market Generator will need to ensure that they are operating at the required level leading into the first interval in which they are to provide LFAS – they will need to do this through appropriate Balancing Submissions – if they do not they will have to put in a declaration that they are unable to provide LFAS in that interval, and will not be activated by SM. They will also be in breach of the market rule 7A.2.8(a). The IMO contends that this is avoidable because a participant will be informed they have been cleared for LFAS duties at least 2 hours before the balancing gate closure for the interval in which they are to provide LFAS.
9.	After a facility is selected for LFAS its Balancing Submission will be adjusted, for dispatch purposes only, to facilitate that it will be operating at least at its pre-loading level. There is however no certainty that this will be the case even when the Market Generator has priced the facility to be cleared in the balancing market. What a facility will be running at the start of a Trading Interval will depend on what is asked of it in the previous Trading Interval: the SOI MW level and the ramp rate required in System Management Balancing Dispatch Instruction for that preceding Trading Interval. The EOI level may not reach the level required for the facility to be in its pre-loading level	See the response to (8) above in regards to the obligations under 7A.2.8(a)
	<p>Clause 7B.3.5:</p> <ul style="list-style-type: none"> - Will the published details include the forecast clearing price? - When is this LFAS Forecast Merit Order determined and published? - Clause 7.13.1(e). Could the LFAS quantities activated be less than the LFAS quantities cleared? If so, which quantity will the payment cover? - Clause 6.17.4A should come after clause 6.17.3 - Is Backup LFAS also the Emergency LFAS? A single term will make reading easier 	<ul style="list-style-type: none"> • Yes; • Each trading interval; • The payment will be on the amounts cleared and provided • Agreed; • Yes
	<p>Clause 7A.3.3(b). Facility not providing LFAS will be given priority over those providing LFAS in tie-breaking for balancing:</p> <ul style="list-style-type: none"> • What is the rationale for this choice? • Is priority here priority to be selected to run or selected not to run when increased generation needed? What about decreased generation needed? • Clause 7A.4.3. If Verve Energy re-applies for a Facility to be considered as a Stand Alone Facility, it would have acted on reasonable grounds. This clause presumes that Verve Energy is vexatious. The amendment added appears to be even more inconsiderate • Clause 7B.3.6. While desirable from System Management operational 	<ul style="list-style-type: none"> • This is not the intention – the IMO has re-drafted the clause to reflect the intention • The “priority” depends upon if the tranche is at the top or bottom of the merit order – each can be considered as unavailable for balancing and priority will be assigned on that basis; • The intention has always been for Verve Energy to be allowed one trial per facility, the IMO has changed the drafting to better reflect this intention; • The IMO has been informed by SM that a facility must be able to provide a

	Issue/comment	IMO Response
	<p>perspective it should not discourage Market Generator. Also it might be possible for System Management to cover its requirement in Clause 7B.1.2.</p> <ul style="list-style-type: none"> • Clause 7B.2.13. As Verve Energy share of generation capacity decreases the market could be better served with this clause applicable to all Market Generators. This should also be changed in clause 6.6.3 and clause 7A.2.15 • Clause 7B.2.14. This clause is not easy to understand. Is it saying that a Market Generator could be found to be guilty without its admission of bad intention as intention could be in the mind of the person rather than explicit? • Clause 7B.3.2. The reference to clause 7A.3.5 should be to clause 7B.3.5 • Clause 7B.3.5(d). System Management should also be given the quantities • Clause 7B.3.9. "section" should be "selection" or the phraseology could be amended to "LFAS Merit Order" • Clause 7B.3.12. As we commented earlier on balancing the results from the equivalent Business Day or Non-business Day should be used 	<p>minimum band of LFAS to be able to respond to frequency deviations (i.e. exceeding a defined AGC dead band). The IMO agrees that the better place for such restrictions is in the LFAS facility requirements and has amended the rules accordingly;</p> <ul style="list-style-type: none"> • The IMO notes that the clauses referred to by Verve Energy are applicable to <u>any</u> market participant which has market power. • The clause enables the IMO to infer reasons or intention behind a Market Participant's behaviour in order to determine whether the Market Participant has complied with its obligations under Ch 7B, and is similar to provisions in the NEM. • Agreed, thank you. • Agreed • Agreed, thank you. • The IMO notes Verve Energy's comment – however the IMO considers that yesterday's price is a better reflection of today's price than the same day last week – if Verve Energy can demonstrate otherwise the IMO will consider Verve's request.

Issue/comment	IMO Response
Bid and Offer defined in Glossary do not appear to cover Verve Energy - no Resource Plan. The design does not appear to require defining bid and offer. The Balancing Submission appears to be price - cumulative quantity and what appears to be required is the quantity change (size) at each price step	Bid and Offer are only used for the purposes of calculating constrained on/off payments for standalone facilities. Therefore there is no need for Bid and Offer to relate to the Verve portfolio. The IMO notes that Verve Energy is required to submit a Resource plan for its stand alone facilities.
Clause 6.5C.7 validation of Resource Plan quantities with Net Contract Position could be comparing LFA quantities (NCPs) and sent out or consumption at site (in Resource Plans). It might be worthwhile checking whether the epsilon factor still required. Leaving out Non-Scheduled Generators from the Resource Plans could also complicate this validation	The IMO has amended clause 6.5C.7 in version 4.0 of the draft rules to ensure that the calculation is comparing loss factor adjusted quantities with loss factor adjusted quantities. However the IMO notes that further changes are required to this clause to ensure consistent comparison of loss factor adjusted quantities.
Clause 6.11.2(d). In clause 6.11.2 the Resource Plan could be different from that in clause 6.5C in that it could be on the day. For this on the day Resource Plan the shortfall term in clause 6.11.1(e) has to be considered. For example a generating unit available when STEM submission made could become unavailable after STEM. This generation capacity could not be in the Resource Plan and a shortfall will be entered. Clause 6.5C.7 provisions thus need modifications to be applicable here for the on the day Resource Plan	There is no provision in the proposed rules for a Resource plan to be different on the day compared to the one submitted under 6.5C.7. therefore the IMO has not made any amendments to the rules in response to this submission.
Clause 6.15.1(a)ii. Does this assume that all generation capacity will have Reserve Capacity Credits through the definition of Available Capacity? Should we make this assumption?	The intention of this clause is to limit the potential payment of constrained off amounts in the event that there is a facility which experiences a forced outage after gate closure and does not update their balancing submission. The definition of the calculation of forced outages (MR3.12) assumes that facilities which experience reportable forced outages have capacity credits (by using RCOQ in the calculation). The IMO is unaware of another concept in the Rules which it would be able to use to achieve the intent. However the IMO notes that the drafting of the clause in v4.0 of the proposed rules always limits participant's exposure to constrained on/off payments to the level of capacity credits instead of just limiting the exposure in the event of an outage inconsistent with the balancing submission. The rules have been amended to ensure that the clause only binds in the event of an outage.
Clause 6.16B.1(a) and clause 6.16B.2(a) have "the sum of relevant facility Metered Schedules" . These should exclude Verve Energy own loads and may need amending	The IMO does not agree that the clause should exclude Verve Energy own loads, as MR[9.3.4] refers to "the net quantity of energy generated and sent out into the relevant Network or consumed by the Facility"
Clause 6.17.6(b)i. RP could be at site consumption while Metered Schedule LFA thus the calculation formula could need amending	Agreed. The IMO has amended this clause (and (b)ii) so that it refers to the values provided in the RP (under 6.11.1(b)(iii)) * LF instead of just RP.
Clause 7.6A.2(c)i. Will System Management take into consideration forecast Non-Verve Energy Intermittent Generator output	The IMO agrees that SM should take into account non-Verve intermittent generation in the determination of the dispatch plan and has made changes to the draft rules
Clauses 7A.3.4(a) and (b) could have Upwards LFAS Enablement and Downwards LFAS Enablement mixed up	Agreed, changes made.
Clauses 7A.3.12(b) and (d). What is the difference between these two?	Agreed, clause removed.

	Issue/comment	IMO Response
	<p>Finally Verve Energy notes that there are proposed Rule Changes made in Chapters 9 and 10. Verve Energy believes that these proposed changes are not pertinent to the market changes currently being undertaken and should be undertaken as part of separate rule change processes, in particular the proposed changes to Chapter 10.</p>	<p>The IMO notes that all markets rely on accurate and timely provision of data to market participants. This facilitates more informed decision-making by participants enabling them to anticipate and respond more efficiently to market requirements. Importantly, it also ensures greater transparency regarding the operation of the market and the behaviour of participants, increasing confidence in the market arrangements. The IMO also notes that the new Balancing Market provisions will greatly enhance the real-time nature of the Wholesale Electricity Market. As such the IMO proposes considers that the changes to the confidentiality clauses (which enable greater transparency of market data) are an essential part of successful implementation of the new balancing market provisions.</p>

Issue/comment	IMO Response
Verve – 4th round	
1) Balancing Quantities: incomplete definition	Agreed, the IMO has amended this definition in version 5.0 of the draft rules
2) IMS Interface Document Procedures: clause 7A.1.12 referenced has been deleted, should the clause referenced be clause 2.36.7?	Agreed, the IMO will amend this definition in version of the rules to be tabled at the next MAC meeting
3) LFAS Downwards Price – Quantity Pair: should the price be in \$/MW rather than \$/MWh in (b)? Same question for corresponding term for Upwards LFAS	Agreed, the IMO will amended this definition in version of the rules to be tabled at the next MAC meeting
4) LFAS Facility Requirements: closing bracket missing	Agreed, the IMO has amended this definition in version 5.0 of the draft rules
5) LFAS Horizon: should 9:30 AM in (h) be 9:30 PM?	Agreed, the IMO will amend this definition in version of the rules to be tabled at the next MAC meeting
6) LFAS Merit Order: Downwards LFAS Merit Order should be LFAS Downwards Merit Order. Similarly for Upwards LFAS Merit Order	Agreed, the IMO will amend this clause in version of the rules to be tabled at the next MAC meeting
7) Metered Balancing Quantity: clause reference should be 6.17.2	Agreed, the IMO will amend this clause in version of the rules to be tabled at the next MAC meeting
8) Minimum STEM Price: unit incomplete (“per MWh” missing)	Agreed, the IMO will amend this clause in version of the rules to be tabled at the next MAC meeting
9) Operational System Load Estimate: clause 6.14.4 referenced now deleted	Agreed, the IMO will delete this definition and the remaining references to it in clauses 10.5.1(y) and (z) in the version of the rules to be tabled at the next MAC meeting as this concept is no longer used.
10) Out of Merit: would definition here cover Downwards Out of Merit Generation as well?	The IMO agrees that the definition is not entirely clear. Therefore the IMO has amended the glossary to define Out of Merit as: “Means quantity within a Balancing Submission which is: (i) Dispatched, or not dispatched, in a manner that is not accordance with the ordering of Balancing Submissions in the Balancing Merit Order, taking Ramp Rate Limits into account; and/or (ii) dispatched but the Balancing Submission price is higher than the Balancing Price (Upwards Constrained On Generation) or not dispatched but the Balancing Submission price is lower than the Balancing Price (Downwards Constrained Off Generation).”
11) Price Cap: incomplete unit (“per MWh” left out). Alternatively, probably less likely	Agreed, the IMO will amend this definition in the version of the rules to be tabled at the next MAC meeting



	Issue/comment	IMO Response
	to be missed when -1000 number changed, use Minimum STEM Price	

Issue/comment	IMO Response
12) Relevant Dispatch Quantity: clause reference should be 7A.3.6 (RDQ used in clause 7A.3.7 but determined in clause 7A.3.6)	Agreed, the IMO will amend this definition and clause 7A.3.6 in version of the rules to be tabled at the next MAC meeting
13) Upwards Out of Merit Generation: clause reference typo – 6.17.5.1(a)(ii)	Agreed, the references in this definition and in the definition of Downwards Out of Merit Generation are incorrect and IMO will amend these definitions in the version of the rules to be tabled at the next MAC meeting
Proposed Amendments	
1) Clause 3.21A.13: why not needed any more?	A Balancing Submission should reflect that the MP can no longer confirm to the Commissioning Test, and System Management has not raised any concerns but the IMO will reinstate the clause.
2) Clause 6.4.6: is a comma missing in the last line before the subclauses?	Agreed. The IMO is also seeking to correct any obvious errors in the current rules not connected with the amendments and will fix this typo in the version of the rules to be tabled at the next MAC meeting
3) Clause 6.5C.7: a) WCP should be NCP b) Clause 6.11.1(f) not in proposed changes, could be clause 6.11.1(a) c) Probably need some cleaning up d) Could be useful to provide some worked examples in the workshop planned for mid September	a) Agreed b) Agreed c) The IMO considers the formula works but is happy to consider suggested clarifications. d) This clause attempts to replicate the concept that a participant may choose to be exposed to balancing if they do not wish to be required to meet the MWh in their NCP in intervals where their output is changing (the “overshooting” problem which currently exists), but instead wish to meet the MW equivalent level by the end of the interval. The IMO has provided examples of this concept in a number of RDIWG meetings.
4) Clause 6.11.1(b)iii: some missing words?	Agreed, the IMO will amend this clause in version of the rules to be tabled at the next MAC meeting
5) Clause 6.15.1(b)(i): should NG TES be Balancing Submission – Balancing Price determined as well? Say a Dispatch Instruction is given to reduce generation in the following situation: a) If not curtailed generation would be 100 MWh b) Balancing Submission has reduction to 60 MWh if Balancing Price drops below -100 \$/MWh c) Balancing drops below -100 \$/MWh	The TES calculation for non scheduled generation is correct as drafted. Whereas scheduled generation is able to submit firm quantities which can be dispatched at specified prices, non scheduled generation will submit a single price, but no quantity.
6) Clause 6.16A.1(b)(iii)1: should this be Downwards LFAS Enablement Band converted to MWh? Similarly should the reference to upwards and downwards be swapped in the following clauses: a) 6.16A.3(b)(iii)1 b) 6.16B.1(b)(ii)2	The concept is that only Upwards Out of Merit Generation in excess of the energy that could have been provided from the upwards LFAS enablement range will be eligible for constrained on compensation. As such the IMO contends that this and the other clauses identified in Verve’s submission are currently correct and do not need amending.

	Issue/comment	IMO Response
	c) 6.16B.2(b)(ii)2 d) 6.17.5(e) Or is this understanding wrong? What is Upwards LFAS and what is Upwards LFAS Enablement?	

Issue/comment	IMO Response
7) Clause 6.16A.2: a) Metered Schedule picked up from clause 6.15.1(b)(ii) as TES will be LFA, the Sent Out Metered Schedule from clause 6.16A.2 will be slightly different. Is this appropriate? Or is there a need to correct the definition for Sent Out Metered Schedule? b) There is no corresponding Downwards Out of Merit Generation for NG in the proposed changes. Is a negative result from clause 6.16A.2 to be used as Downwards Out of Merit Generation? Should it be? Or is clause 6.16A.3 to be used?	a) Noted, the IMO has amended this clause in version 5.0 of the draft rules b) The clause for Downwards Out of Merit Generation applies to both scheduled and non scheduled generation.
8) Clause 6.16A.3(a): should the Metered Schedule here be converted to Sent Out Metered Schedule since TES is on a sent out basis? Or should TES be LFA as in the case for NG in clause 6.15.1(b)? Or is there a need to correct the definition for Sent Out Metered Schedule?	Noted, the IMO has amended this clause in version 5.0 of the draft rules
9) Clause 6.16B.1(b)(i): a) Should "and" at end be "or"? b) Why is "or appropriately" not repeated in the corresponding clause 6.16B2(b)(i)?	a) Agreed, the IMO will amend this clause in version of the rules to be tabled at the next MAC meeting b) Noted, the IMO will amend this clause in version of the rules to be tabled at the next MAC meeting
10) Clause 6.16B.2(a): should clause reference to 6.16B.2(a) be 6.16B.2(b)?	Agreed, the IMO will amend this clause in version of the rules to be tabled at the next MAC meeting
11) Clause 6.17.4A: a) Should clause 6.17.3 be added to clauses 6.17.4 and 6.17.4B? b) Wrong sequence	a) Agreed, the IMO will amend this clause in the version of the rules to be tabled at the next MAC meeting b) Agreed, the IMO will amend this clause in the version of the rules to be tabled at the next MAC meeting
12) Clause 6.17.4(c): should CoffQ2 be CoffQ1?	Agreed, the clause should read "...exceeds CoffQ1, then Constrained Off Quantity2 (CoffQ2)....". The IMO will amend this clause in the version of the rules to be tabled at the next MAC meeting
13) Clause 6.17.4(f): should Coffg1 be CoffQ1?	Agreed, the IMO will amend this clause in the version of the rules to be tabled at the next MAC meeting
14) Clause 6.17.4B: Downwards Out of Merit Generation not defined for NG	Yes it is. The clause for Downwards Out of Merit Generation is generic and applies to both Scheduled and Unscheduled Generation.
15) Clause 6.17.6A: wrong sequence	The sequence should be correct, as the clauses that have been struck out and which appear below 6.17.6A are to be deleted and replaced.



	<p>16) Clause 6.17.6: should non-Balancing Dispatch Instruction be used instead of Dispatch Instruction? It might be useful for the IMO to draw up the hierarchy showing the relationship if any among the following terms:</p> <ul style="list-style-type: none"> a) Dispatch Instruction b) Non-Balancing Dispatch Instruction c) Operating Instruction d) Dispatch Order <p>The hierarchy could be useful in reading other clauses as well such as clauses:</p> <ul style="list-style-type: none"> a) 7.7.1 b) 7.7.2 and others 	<p>There is no concept of a Non-Balancing Dispatch Instruction in the rules, this clause is named as it is to ensure that it is clear that this payment is only for Non-balancing Facilities – The IMO will change the name of the Non-Balancing Dispatch Instruction Payment to Non-Balancing <i>Facility</i> Dispatch Instruction Payment in the version of the rules to be tabled at the next MAC meeting</p> <p>The IMO notes that there is no ‘hierarchy’ as such between the other instructions which can be issued by SM – Market Participants are required to comply with each DI, OI and DO. Where an inconsistency exists, the MP should attempt to rectify the inconsistency through communication with SM, where this is not possible the most recent instruction should be followed</p>
	<p>17) Clause 6.17.6(c): are the quantities in the various subclauses here at site rather than LFA while the price could be at Muja Reference? Similar happening in clause 6.17.6B?</p>	<p>Yes, The IMO notes that it has not made any changes to the measurement quantities in this clause as part of the MEP – these clauses were last changed as part of RC_2010_29 and this will be reflected in the rules to be tabled at the next MAC meeting. Clause 6.17.6B is correct in the current version.</p>
	<p>18) Clause 6.17.6(c)(i)2: should the clause reference be 7.13.1(eD) rather than 7.13.1(eC)?</p>	<p>Agreed, the IMO will amended this clause in version of the rules to be tabled at the next MAC meeting</p>
	<p>19) Clause 7.6A.4: should be removed with the removal of Non-Compliance Charge. Also the following clauses to be removed:</p> <ul style="list-style-type: none"> a) 9.10A b) 9.11.1 – remove NCC(q,m) from equation and definition c) 9.18.3(c)viii(A) d) 10.5.1(vA) and (vB) 	<p>The IMO notes Verve’s comment, however, the information in this clause will be used as part of the IMO’s compliance regime. In regards to the other clauses identified by Verve Energy:</p> <ul style="list-style-type: none"> a) Agreed b) Agreed c) Agreed d) 10.5.1 <ul style="list-style-type: none"> a. (vA) Agreed b. (vB) Disagree – see response above,
	<p>20) Clause 7.7.5: reference to 2:00 PM could be a carried over from Resource Plan. In the new balancing market this time could be inappropriate now taking into consideration the Balancing Gate Closure and potential Balancing Submission updates from forced outage, Internal and External Constraints</p>	<p>The IMO contends that this number is still appropriate for dispatch out of merit, however would welcome the views from Market Participants as to its appropriateness and recommendations for a different time.</p>
	<p>21) Clause 7.9.5: clause 7.9.6 referenced now deleted</p>	<p>Agreed, the IMO will amend this clause in the version of the rules to be tabled at the next MAC meeting</p>
	<p>22) Clause 7.9.6: why deleted?</p>	<p>In the last round of submissions SM noted that they require accurate information form MPs as to the scheduled times of desynchronisation, however given almost all movements of a facility will now be through DI, OI or DO, if this clause was left in the rules MOPs would not</p>

		be required to inform SM of expected desynchronisation.
	23) Clause 7.10.7(a): is "from" to be removed?	The typo of "from" will be corrected to "from", in this clause in the version of the rules to be tabled at the next MAC meeting
	24) Clause 7.10.7(b): reference to subclause (b) should be to subclause (a)	Agreed, the IMO will amend this clause in the version of the rules to be tabled at the next MAC meeting
	25) Clause 7.11.6AA: should reference to Market Advisory be Dispatch Advisory?	Agreed, the IMO will amend this clause in the version of the rules to be tabled at the next MAC meeting
	26) Clause 7.13.1: is leaving out dD intentional?	Noted, the IMO will amend this clause in the version of the rules to be tabled at the next MAC meeting
	27) Clause 7.13.1(eC): a) Reference to the decrease in NG output and clause 6.15.1(b)(i) but clause 6.15.1(b)(i) determines the possible output if the Dispatch Instruction not given b) Reference to clause 6.17.6(c)(i) could be incorrect as this reference is concerned with DSM	a) Agreed, wording inconsistent. the IMO will amend this clause in the version of the rules to be tabled at the next MAC meeting b) Agreed, the IMO will amend this clause in the version of the rules to be tabled at the next MAC meeting
	28) Clause 7.13.1A(a): should be deleted since Non-Compliance Charge removed	Disagree, please see response above relating non-compliance quantity to the new compliance regime.
	29) Clause 7A.2.9(f): a) Should the phrase "but for the Forced Outage" be removed b) Why Verve Energy excluded from updating its Balancing Submission in External Constraint events?	a) Disagree, The clause seeks to ensure that if the Verve Balancing Portfolio will be required to run on liquids while only receiving non-liquid prices because of a forced outage, Verve Energy must only update the submission to the extent that the F.O. has affected the balancing submission. b) Verve energy may only update its balancing submissions at the prescribed times or in the event of a forced outage, this has been consistently portrayed by the IMO in RDIWG meeting as a market power mitigation strategy
	30) Clause 7A.2.12: references to clause 7A.2.9(d) and (e) should (e) and (f)	Agreed, the IMO will amended this clause in version of the rules to be tabled at the next MAC meeting
	31) Clause 7A.2.17(c): is there an extra comma after "to"?	Agreed, the IMO will amended this clause in version of the rules to be tabled at the next MAC meeting
	32) Clause 7A.3.10: should the reference to clause 7A.3.8 be 7A.3.7?	Disagree, The IMO is not able to publish the correct Balancing Price until after the time it receives the final set of information form SM under clause 7A.3.8, if any.
	33) Clause 7A.3.16: some words missing?	Agreed, the IMO will amend this clause in the version of the rules to be tabled at the next MAC meeting



34)	Clause 7B.2.3(b): reference to clauses 7B.1.4 and 7B.1.5 which do not relate to publication. Similarly for clause 7B.2.5 and clause 7B.3.5(b)(i) and clause 7B.3.5(c)(i)	Agreed, the IMO will amend these clauses in the version of the rules to be tabled at the next MAC meeting
35)	Clause 7B.2.8: reference to clause 7B.2.3 (new submission) should be 7B.2.4 (update)	Agreed, the IMO will amend this clause in the version of the rules to be tabled at the next MAC meeting

36) Clause 7B.2.11: should the conditions and circumstances extend beyond the relevant Trading Interval as anticipation of later Trading Intervals could be reasonable ground for change?	Disagree. A submission for one Trading Interval (t1) made in anticipation of conditions and circumstances in later Trading Intervals would mean that a change in submission should be able to be explained by reference to why the market participant no longer anticipated those conditions and circumstances. This would be the case right up till t1.															
37) Clause 7B.3.2: a) Reference to clause 7A.3.5 should be to clause 7B.3.4 b) Clearer wording will be appreciated Similarly for clause 7B.3.3	a) Agreed, the IMO will amend this clause in the version of the rules to be tabled at the next MAC meeting b) The wording of clauses 7B.3.2 and 7B.3.3 will be amended in the version of the rules to be tabled at the next MAC meeting.															
38) Clause 7B.3.6: consider the following situation: a) LFAS required: 50 MW b) x = 5 c) Ranked Offers <table><tr><th>Price (\$/MW)</th><th>Quantity Offered (MW)</th><th>Quantity Selected (MW)</th></tr><tr><td>1</td><td>20</td><td>20</td></tr><tr><td>2</td><td>25</td><td>25</td></tr><tr><td>3</td><td>5</td><td>0</td></tr><tr><td>4</td><td>50</td><td>5</td></tr></table> <p>Such situation could result in a more expensive LFAS. Thus setting x needs careful consideration. It should not be too small but it should be small enough to not take it out of meeting the residual requirement</p>	Price (\$/MW)	Quantity Offered (MW)	Quantity Selected (MW)	1	20	20	2	25	25	3	5	0	4	50	5	Noted, the IMO will be working on defining this number with SM over the submission period
Price (\$/MW)	Quantity Offered (MW)	Quantity Selected (MW)														
1	20	20														
2	25	25														
3	5	0														
4	50	5														
39) Clause 7B.3.9: what is the reason for choosing the lowest price as the clearing price?	Noted, the IMO has amended this clause in version 5.0 of the draft rules															
40) Clause 7B.3.15: a) LFAS Forecast Merit Order not in Glossary b) Should the forecast price be included in the publication?	a) Agreed, the IMO will amend this clause in the version of the rules to be tabled at the next MAC meeting b) Agreed, the IMO will amend this clause in the version of the rules to be tabled at the next MAC meeting															
41) Clause 9.19.2: a) Why the choice of moving to providing explanation only on request? b) With the new balancing and LFAS market changes it is likely that there will be greater need for explanation	The IMO contends that It is not feasible and would be unnecessarily confusing to include both sets of values and a complete explanation within adjusted Settlement Statements. Accordingly this change makes it clear that only the current (new) values will be provided (as they already have the old values in preceding statements), and they can ask for explanations from the IMO (instead of any expectation that the explanation is included in the statement).															

System Management

Major Issues: Transitional Arrangements

SM believes that transitional arrangements, above and beyond a market trial, are needed for the Competitive Balancing Market (CBM) implementation to enable participants to gain physical experience with the new market and to reflect the development stage of supporting business systems of all participants. In the rules, Transitional Arrangements which should be in force at the commencement of the CBM are presently not provided for. Participants will need to know the details of any such arrangements before assessing the impact of the CBM on their organisation in both the short and longer term. SM have met with the IMO on several occasions to discuss these arrangements however further work and wider consultation is required to finalise the transitional arrangements.

The IMO agrees that transitional arrangements need to be in place while SM develops the full capability and systems for planning and dispatch in the new market and notes that work between the IMO and SM is underway this week to agree these arrangements so they can be tested with Market Participants. It seems strongly desirable that any rule changes required to deal with the transition period are kept to an absolute minimum.

Market Procedures (including PSOPs)

The rules are to be outcome based. The detailed workings of the CBM will not be known until both the Market Rules and Market Procedures have been drafted. Therefore a significant amount of work will be required to document the details required in the Market Procedures.

While the IMO has not detailed how Market Procedures will be progressed it has focussed on several iterations of the Market Rules. Members of the RDIWG have had around only 1.5 weeks to review each iteration of the Market Rules. Whilst the intent of this consultation is applauded, in SM's view this has resulted in a less than orderly approach to resolving issues raised by RDIWG members including SM.

We recommend ensuring that the Rules provide a clear distinction for, and mandate for, market-related procedures and system management-related procedures (PSOPs). With clear boundary definition, SM can then commence work to prepare the relevant procedures once the relevant over-arching Rules have been resolved. SM have attempted in this document to identify those areas of the Rules where resolution is on the critical path to Procedure development.

The IMO has run several rounds of informal consultation on the Rules at the request of SM and Market Participants and this consultation has allowed a large number of issues to be dealt with.

With the submission of the draft Rules into the formal Rule making process, focus is now turning to the Market Procedures and the IMO has recently agreed a timeframe for these with SM. There is nothing stopping SM commencing work on its Market Procedures now.

	<p>Balancing Facility Requirements</p> <p>Balancing involves physical dispatch of supply and demand in SWIS which is critical to security and is therefore the responsibility of System Management. The commercial processes introduced by the CBM can assist in this being on a more economic basis. Balancing Facility Requirements must be in alignment with SM operating procedures for undertaking secure operation of the SWIS. Failure to address the physical dispatch issues properly in the Balancing Facility Requirements will increase SWIS security and reliability risks.</p>	<p>The IMO notes SM's concerns and the importance of these requirements to system security and is very keen to work closely with SM and the RDIWG on the development of these requirements as part of the Market Procedures work agreed recently, given the interest shown by Market Participants in these requirements. It also notes that these requirements could have a material impact on the costs faced by Market Participants and so may influence their ability and willingness to really participate in the balancing market, which is the reason for its involvement.</p>
	<p>Load Following Ancillary Service</p> <p>Ramp rate considerations are not included in the LFAS design. SM requires sufficient ramp rate capability as well as total regulation margin across the LFAS providing generators to meet the LFAS requirements. Whilst SM acknowledges IMO's changes to ensure consistency of submissions with limits specified by SM, because of the impacts on the SWIS security and reliability SM would like to work with IMO to ensure that all issues with LFAS (e.g. validity checks on submissions) are managed properly.</p>	<p>The IMO reiterates its response to earlier submissions that ramp rates are "dealt with" as part of the LFAS bidding restrictions in clause 7B.1.2c and in the definition of the LFAS Facility Requirements. The IMO understands that SM is not seeking to change this.</p> <p>The IMO notes that it is working closely with SM on the development of the IMO systems and commits to resolving any validity check issues with SM as part of the implementation of new market systems.</p>
	<p>Commencement Date</p> <p>The "hard coding of the 1st April 2011 as the start date of the CBM creates an uneasy concern on the part of many Participants. This concern could be alleviated by removing the hard coded date from the rules and replacing it with "an appointed day" statement like that used to commence the market in 2006. We recommend formal development (starting now) of a set of "readiness criteria", resolution of which will provide the trigger for market start. Such a process was used for NEM start, startup of the Victorian gas market and for the introduction of FRC in the NEM.</p> <p>While SM are committed to bringing in the new market in an efficient and timely manner, it would be utterly irresponsible to proclaim the new market if parties were not ready and if system security and/or the commercial position of market participants was jeopardised as a result, or if parties were exposed to "breach" the rules by virtue of the hard-coded start date.</p> <p>Any delays or significant changes to the Market Design or Rules from now on are likely to result in potential delays to market start. SM notes that the</p>	<p>The IMO agrees with the need to have some flexibility with the actual start date so is proposing to amend the Rules to make the start date 1 April or an alternative date as determined by the IMO Board. There will clearly need to be an assessment of readiness just prior to the actual Market Start.</p> <p>At this stage, the IMO intends having new balancing and LFAS arrangements in place from April of next year (i.e. if not 1 April then shortly thereafter) via transitional arrangements for SM, given the costs of delays. The IMO acknowledges that some functionality may need to be rolled out after that for System Management and the IMO is also considering a "grace" period for compliance with some of the new requirements to allow MPs to adjust.</p> <p>The IMO apologises for offering to present procedure development timelines at the RDIWG #15 meeting, however upon developing the timelines the IMO realised that development of procedures would need to be staggered. The IMO is pleased to have now worked up a schedule for the Market Procedure work with SM.</p>



	<p>IMO had offered to present its timeline for development and listing of Market Procedures for competitive balancing at the RDIWG#15 (9/8/2011) meeting, however as of 6/9/2011 this was still outstanding and given the detail to go into the Market Procedures this has now become critical. SM admits it also hasn't met all its requested timeframes for the market development but raises this point to show the need to not hard code a go-live date for what is a substantial change to the Market.</p> <p>Note the inter-action between this issue and the "Transitional Arrangement" issue.</p>	
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<p>Market Power Considerations</p> <p>We note that the IMO has commissioned consultants to look at the impact of Market Power on the CBM arrangements. Until this work is complete the IMO may want to consider whether it is premature to release the draft rules for consultation as this work may have significant impact on the operation of the CBM.</p>	<p>The IMO considers that the proposed market design has adequate safeguards in place to minimise market power issues. The Board has simply asked for an independent assessment of this prior to signing off the final version of the Rules. The IMO often has consultants review proposed rules during the consultation phase of a rule change process (refer RC_2010_25 and RC_2010_37).</p>
<p>Compliance and Monitoring</p> <p>The new arrangement replaces automatic financial outcomes with potential compliance penalties. A high level presentation by the IMO at RDIWG#16 looked reasonable but more detail is needed for the picture to be complete. Significant changes may be required to the rules to ensure any actions undertaken by the IMO are enforceable. Since many of these compliance and monitoring arrangements may rely on SM information and processes, and have implications for incentives affecting SM's ability to manage SWIS security and reliability effectively, we consider that these should be articulated and any issues resolved before going to public consultation.</p>	<p>The IMO notes that participants are obliged to comply with the rules and considers that this, backed by an effective compliance regime, is preferable and will avoid distorted incentives which inevitably arise through automated penalty regimes. The IMO considers that the proposed arrangements will enable effective enforcement.</p> <p>Information required for the effective implementation of an enhanced surveillance and compliance regime has been articulated in the rules but if SM is unsure of its obligations or has specific issues with any of the requirements/obligations placed upon it, or can give specifics on any further detail SM needs, the IMO welcomes submissions to that effect. In particular, the IMO welcomes more specifics on SM's concerns that significant changes to the rules may be needed to ensure actions taken by the IMO are enforceable. The IMO currently does not have any such concerns with the proposed rules.</p>
<p>Market simulation and participant training</p> <p>SM thinks that it is important for all balancing market stakeholders to participate in a simulation of the balancing market for some specific scenarios with the IMO and SM to observe the balancing bids/offers mechanisms at work and their interaction with commit and dispatch outcomes across the SWIS and the security and reliability of the SWIS throughout. The implementation timeframe needs to reflect this requirement.</p> <p>Recent discussions with the IMO on just one aspect of detailed design highlighted the need for additional rules and SM believes that further rule/procedure requirements will be identified by undertaking this scenario work. Moreover it will also provide an education opportunity to all participants.</p>	<p>As SM is aware, the IMO has already held several workshops and undertaken several rounds of consultation over the past three months on the draft Rules for the new market arrangements even before the formal Rule change process has commenced. Trials are planned to involve Market Participants in "mock ups" of the new arrangements from December – in time for further submissions to be provided in the second round of consultation on the Rules.</p>

	<p>SM Information Requirements</p> <p>To meet its obligations in the new CBM, SM will need additional information from participants (e.g.. standing data) to include in its pre-dispatch and dispatch systems. These will need to be included in a PSOP which would require mandating through a heads of power statement in the Market Rules.</p>	<p>The Market Rules already require IMO to share standing data with SM and the IMO has developed a comprehensive registration system to collect such information and will willingly adapt it to meet SM needs. The IMO does not see any need for SM to duplicate the requirement to provide this information in a PSOP and therefore does not see a need to address this in the market rules. If System Management requires information in excess of current standing data provisions the IMO welcomes timely input from SM through the rule change process to ensure that this information is provided and the reason for it.</p>
	<p>Governor Response of Generators</p> <p>One particular area for consideration is what SM does where generators take automatic action (e.g. governor response) following a significant system event that results in a large frequency deviation – this is both from generators assigned to Ancillary Service but also other generators who assist with spare/excess capacity. In these cases automatic response is of benefit to the system but SM cannot issue a DI in advance or after the fact in line with standing data. SM would like to suggest further discussion with the IMO to resolve this. A possible solution is to add a new clause to cover this situation – something along the lines of: “Where there is a large frequency deviation, SM will issue DIs to participants who move automatically to counter act the frequency movement after the fact.”</p>	<p>The IMO considers that the proposed rules are not inconsistent with such automated responses to assist system security. SM is able to deviate from the BMO, and, if necessary, disregard the BMO to maintain the Dispatch Criteria. As such, during and after a system event/ automated response, SM would issue DIs to restore dispatch in accordance with the BMO once it has been able to address Dispatch Criteria/ system security requirements. However, the IMO has amended the proposal to make it clear that automated responses in line with system security requirements are deemed to be DIs.</p> <p>The IMO agrees that where there is a large frequency deviation that places the system at risk, SM should take whatever action they consider appropriate and in that event, SM can deviate from the BMO if necessary. In the IMO's view, the draft Rules allow this to happen as they stand now.</p>
	<p>General comments: Governance and Risk Assignment</p>	
	<p>Clause 7A.1.5 – the Balancing Facility Requirements is a very important document in which many areas in the CBM are resolved. The physical dispatch requirements for participation by generators (scheduled and unscheduled) will be covered but IMO solely create the Procedure. The Draft Amending Rules do not provide certainty in this area for either Market Participants or SM. It could be argued that the IMO has sole discretion (or at least the final say) in:</p> <ul style="list-style-type: none"> • What the requirements are • When they can be suspended • The impacts for physical balancing of the SWIS and potentially Reserve Capacity • Dispatch obligations <ul style="list-style-type: none"> ○ Real time compliance ○ Forced Outages vs. Available Capacity 	<p>The IMO notes SM's concerns and the importance of these requirements to system security and is very keen to work closely with SM and the RDIWG on the development of these requirements as part of the Market Procedures work agreed recently, given the interest shown by Market Participants in these requirements. It also notes that these requirements could have a material impact on the costs faced by Market Participants and so may influence their ability and willingness to really participate in the balancing market, which is the reason for its involvement.</p>



	<ul style="list-style-type: none"> • Good Faith declarations • Reporting requirements <p>SM proposes that this is dealt with by adding a requirement that the facility must have met the requirements of Technical Code and requirements of SM's procedure.</p>	
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	<p>Clause 7A1.2 – SM doesn't understand the need for separate balancing market objectives for the following reasons:</p> <ul style="list-style-type: none"> Each balancing objective is covered directly or indirectly by the market objectives in chapter 1 of the Market Rules Separate objectives are a departure from the drafting of all rules. No other chapter including the new chapter 7B has separate objectives. 	<p>The Balancing Market Objectives are intended to be consistent with the objectives set out in clause 1.2.1 and yet expand upon those objectives in the Balancing context. These objectives have been added to guide all Rule Participants on the intended outcomes of Ch7A and are to be taken into account by all participants in the performance of Balancing activities under Chapter 7A. The new amendments seek to departure from a prescriptive basis to a more outcomes based drafting style. In such a context, as highlighted by the Federal Court in the recent decision AER v Stanwell [2011] FCA 991, objectives in electricity market rules are useful and have an important part to play in the day to day operation of the rules.</p>
	<p>Clause 2.9 to 2.11 – Under the provisions of these clauses Market Procedures have only a 1 step public consultation and 1 level of scrutiny. Only IMO or SM can initiate a Procedure or a Procedure amendment whereas a Rules amendment can be initiated by anybody. Are there sufficient channels for a participant/s to raise a procedural issue that need full consideration?</p>	<p>The IMO will insert a new clause clauses in the version of the rules to be tabled at the next MAC meeting as follows:</p> <p>2.10.2A. Where the IMO or System Management has decided not to amend or replace a Market Procedure following a notification under clause 2.10.2, the IMO or System Management, as applicable, must publish reasons for that decision.</p>
	<p>Residual Issues from SM's Critical Rule Amendments</p>	<p>These have been responded to in the table provided by SM</p>
	<p>Other minor issues</p>	
	<p>Scope of Rule Changes Several of the rules being changed are not directly related to the operation of the Competitive Balancing Market. In order to provide due governance and prevent delays to the implementation of the CBM is suggested that this rules are progressed in a separate stream to those that are specific to the CBM.</p> <p>For example the latest version of the rules includes new rules 2.10.17 – 2.10.19. These rules allow the IMO to extend the time for Procedure Change timeframes. This issue is not specific to the CBM and could be progressed separately.</p> <p>Another example is the change around confidential information which again is not a CBM issue but a wider market consideration.</p>	<p>The IMO has responded to both of the issues raised by SM in responses to other submissions. The IMO maintains that changes to both the Market Procedure governance and confidentiality clauses are required for the efficient implementation of the new balancing provisions.</p>
	<p>Format of Rule Changes The proposed rule changes could be more easily understood if they followed the current format of the Market Rule as much as possible. For example the new rule 2.36.7 states: The IMO is to determine IMS Interface Document Procedures from time to time The current rules use wording such as: The IMO must document in the XXX Market Procedure</p>	<p>Consistency is important in interpreting the Rules. However, there is room to improve both the wording of the proposed changes and the existing rules, which the IMO and its advisers will seek to do in the ongoing review process. In this respect market participants' comments are welcome.</p>



	A consistent format adds to the clarity and understanding of the rules.	
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Wholesale Electricity Market Pre Rule Change Proposal

PRC_2011_10: Competitive Balancing and Load Following Market

Change Proposal No: *PRC_2011_10*

Received Date: *TBA*

Change requested by:

Name:	Douglas Birnie
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Address:	Level 3, Governor Stirling Tower, 197 St Georges Terrace
Date submitted:	TBA
Urgency:	High
Change Proposal title:	Competitive Balancing and Load Following Market
Market Rule(s) affected:	**Numerous**

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 . This Rule Change is submitted by the IMO. Pursuant to clause 2.5.7 of the Market Rules, the IMO must publish notice of a Rule Change Proposal developed by it on the Market Website.

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:

Purpose

The purpose of this Rule Change Proposal is to promote the economic efficiency of the Wholesale Electricity Market (WEM) by enabling greater Independent Power Producer (IPP) participation in the provision of balancing and the Load Following Ancillary Service (LFAS). This will be achieved via new market arrangements that will enable calculation of market-based prices for balancing and LFAS and will provide greater transparency of market information to improve the efficient operation of the WEM.

Background

Since the WEM was established in 2006, the opportunity for Market Participants to be engaged in the provision of energy beyond the Short Term Energy Market (STEM) has been limited. Verve Energy has had the role of default balancer, and the opportunity for IPPs to provide balancing energy has been restricted to occasions when Verve Energy runs out of non-liquid plant or when system security requirements cannot otherwise be maintained (as covered by clause 7.6 of the Market Rules).

In feedback gained during consultation undertaken by the Independent Market Operator (IMO), privately owned Market Participants expressed a need to improve the current balancing mechanism to allow the opportunity for IPPs to participate in the provision of balancing, while the current default balancer and others expressed concerns regarding the existing balancing pricing method. The Market Advisory Committee (MAC) was presented with a list of the issues of concern in relation to the WEM – and following a prioritisation procedure – improving the balancing mechanism was identified as the top priority in August 2009¹.

The Verve Energy Review - commissioned by the Government to assess why Verve Energy was in a loss-making position - critiqued the market similarly². It identified issues around the lack of competition in aspects of the market caused by the current market design.

¹ Refer to the Market Rules Evolution Plan: www.imowa.com.au/market-rules

² Refer to www.energy.wa.gov.au/.../Verve%20Energy%20Review%20Final%20Report%20August%20202...

Development of this Rule Change Proposal

Options for IPPs to participate in balancing, including alternative market design options were subsequently investigated by the Market Design Review Team (MDRT³). The IMO presented a range of options to stakeholders at workshops in May and June 2010⁴. In August 2010⁵, the MAC's advice to the IMO Board was that initial development work should assume the retention of the current fundamental market design, evolving the design as far as practicable, prior to considering exploration of further market design options. The IMO Board agreed with the MAC's advice but noted that if sustainable solutions were not identified then it would ask for an assessment of more fundamental market re-design options.

The Rules Development Implementation Working Group (RDIWG⁶) was established by the MAC in August 2010 to consider how to address a number of issues around balancing, reserve capacity refunds, operation of the STEM and ancillary services under the current design. The specific design issues and problems to be addressed by the RDIWG are available on the IMO website⁷.

Retention of the current market design

This Rule Change Proposal has been developed through the RDIWG. This Rule Change Proposal retains the current market design with Verve Energy continuing to be the default provider of ancillary services, and extends it as far as practical to facilitate IPP participation in balancing and LFAS through price based competition. This avoids the cost and complexity of fundamental design changes and is consistent with longer term development options. It also provides opportunities for Verve Energy to separate facilities from its portfolio and bid them for balancing and LFAS on the same basis as IPPs.

Retention of the fundamental WEM design means:

- Bilateral contracts between Generators and Market Customers as the basis for commercial and physical participation in the WEM.
- Opportunities for Market Participants to adjust their bilateral positions through the STEM.
- Continuance of the System Management / Verve Energy relationship (portfolio based, gross dispatch).
- Energy supplied in the market determined by:
 - IPPs operating their facilities in accordance with Resource Plans, (subject to net dispatch by System Management); and
 - Verve Energy being dispatched on a portfolio basis.

⁴ Refer to the following webpage for further details: http://www.imowa.com.au/design_review

⁵ Refer to the MAC Meeting 11 August 2010 for further details.

⁶ Refer to the following webpage for further details: <http://www.imowa.com.au/RDIWG>.

⁷ Refer to the following webpage for further details:
http://www.imowa.com.au/f139,1323967/RDIWG_market_Design_issues_problems.pdf

- Verve Energy continuing to be the default provider of Ancillary Services (AS).

Overview of Proposed Arrangements

Under the proposed arrangements, Verve Energy will remain the default provider of ancillary services and System Management will continue to dispatch the Verve Energy portfolio as a service to Verve Energy. However, under the proposal, IPPs will be able to submit price based bids to compete with the Verve portfolio in balancing and LFAS markets. Following the existing STEM process:

- IPPs will submit Resource Plans, as now but indicating MW levels and ramping rates at which they will operate their scheduled generation facilities to meet their contractual positions.
- Verve Energy will submit a series of price-quantity pairs for each Trading Interval for its available capacity. I.e. a Portfolio Supply Curve (PSC) for each interval. PSCs will be along the lines of Verve's current STEM submissions but expressed in MW for dispatch purposes.
- IPPs will make facility Balancing Submissions for each Trading Interval indicating the MW quantities and prices at which they are prepared to be dispatched above or below the facility Resource Plan. It will be a requirement that all available capacity be included in balancing submissions, consistent with current requirements but with flexibility to split capacity across multiple price-quantity pairs.
- Verve Energy will be able to separate facilities from its portfolio, subject to IMO approval taking account of System Management's views, and operate them on a standalone basis, submitting facility resource plans and balancing submissions on the same basis as IPPs.
- Verve Energy will be required to make LFAS submissions covering the full quantity of LFAS required by System Management. IPPs, and Verve for standalone facilities, may make facility LFAS up and or/down submissions. LFAS submissions will indicate MW up and down capability and associated enablement prices.
- The IMO will rank LFAS submissions in price order and select for service the necessary quantity to meet overall LFAS requirements specified by System Management.
- The IMO will create a Balancing Merit Order, ranking balancing submission quantities in price order. In forming the Balancing Merit Order, the IMO will take into account any capacity affected by the selection of LFAS.
- The IMO will provide the Balancing Merit Order to System Management (without prices) for planning and dispatch purposes.
- The IMO will prepare forecasts of expected IPP facility/ Verve Energy Stand Alone Facilities (VSAF) and Verve Energy Portfolio dispatch and balancing market prices for each Trading Interval, and publish forecast quantities to the relevant Market Participant and market prices to all Market Participants. LFAS quantities and prices will be included in forecasts on the same basis.

- System Management will review forecast generation dispatch and the Balancing Merit Order, plan for expected dispatch and prepare and update the Verve Energy Dispatch Plan for meeting expected Verve Energy Portfolio quantities and LFAS requirements.
- Market Participants will have opportunities to review and update their balancing and LFAS submissions in light of market forecasts and their facility/ fuel status.
- The above cycle will iterate towards dispatch until gate closure when submissions are locked in, except for bona fide physical reasons (e.g. Forced Outages).
- In each Trading Interval, System Management will instruct accepted LFAS enablement MW bands and dispatch IPP/VSAF facilities and the Verve Energy Portfolio in accordance with the Balancing Merit Order unless it is necessary to deviate in order to ensure system security requirements are met.
- The Balancing Price will be set from the final Balancing Merit Order and actual generation requirements. I.e. an ex post marginal price. Upward and downward LFAS prices will be set at the price of the marginal enablement tranches instructed by System Management.
- Variations from Net Contract Positions will be settled at the Balancing Price. There will be no DDAP/UDAP adjustments for IPP balancing payments so that IPPs will face actual balancing costs. Deviations as a result of not following dispatch instructions will be subject to sanction through the compliance regime.
- Market Participants will be eligible for constrained on or off compensation where quantity in a balancing submission is dispatched out of merit. For example if a quantity in a balancing submission with a price higher than the balancing price has been dispatched by System Management, the relevant Market Participant will be eligible for constrained on compensation at the price difference for the quantity involved.

A more detailed description of the new balancing and LFAS market arrangements can be found at [www.imowa.com.au/RDIWG/ New Balancing Market Proposal: Design Details](http://www.imowa.com.au/RDIWG/New_Balancing_Market_Proposal_Design_Details).

Key areas of focus with the new arrangements

This Rule Change Proposal addresses a number of concerns about the existing arrangements identified during consultation with Market Participants, the MAC and the Verve Energy Review. Particular areas of focus are as follows.

Key focus 1: Increasing IPP Participation in Balancing

This Rule Change Proposal enables all Market Participants to make price based submissions for balancing, update submissions in response to market forecasts and expected dispatch, and be dispatched with certainty about payments. It also provides opportunities for Verve Energy to move towards facility based bidding over time and be treated on the same basis as IPP facilities.

A range of options to facilitate increased IPP participation in balancing within the current hybrid market design were considered by the MRDT and subsequently shared with the RDIWG. This included contractual alternatives such as undertaking a second STEM run or multiple STEM style auctions. However, there was a strong preference for increasing participation in balancing through price based physical dispatch of balancing resources. A number of simpler options were also considered and discounted in favour of the proposed design. This included the possibility of the market facilitating balancing support contracts (BSCs) - given that the current Market Rules provide for System Management or Verve Energy to enter into a BSC but none have been since Market Start – and options suggested by a Market Participant and by System Management. None were considered to provide sufficient opportunity to enable IPPs to participate effectively in the provision of balancing as provided by the new market arrangements proposed in this paper.

Key focus 2: Consistency between the balancing price and dispatch

At present, the balancing price (MCAP) for each Trading Interval is established from participants' STEM supply submissions, ranked in price order, and the actual level of supply and demand in the interval. There are a number of limitations with this approach. For example:

- The pricing curve includes all STEM supply submissions whereas at present Verve Energy is the default balancer and IPPs are generally not dispatched off resource plans. MCAP is therefore often inconsistent with dispatch and the cost of/ need for balancing.
- The aggregate quantity used to calculate MCAP (i.e. to determine the intersection with the MCAP price curve) includes some quantities which are not part of STEM submissions. This tends to result in MCAP being higher than it would be otherwise.

The above effects have been investigated in some detail. For example, see RDIWG meeting 5 papers⁸.

This Rule Change Proposal addresses these issues by retaining the concept of marginal pricing but with IPPs able to compete on price for dispatch and the market setting a clean price reflecting actual dispatch outcomes to the extent practical. The methodology is explained in more detail in Appendix One.

A clean balancing price will more accurately signal the need for and value of balancing support/ supply flexibility. This will assist in addressing concerns over the need for increasing flexibility, for example overnight in low load/ high wind scenarios, and in providing longer term signals to generation investors about the need for and value of flexibility in the WEM.

Where differences between the balancing price and actual dispatch do occur, Market Participants will not be financially disadvantaged if they were following dispatch instructions. This will be achieved through constrained on or off compensation. This can occur if a Market Participant has been dispatched out of merit to satisfy system security requirements or because pricing is set on a half hourly basis and dispatch is a real time activity.

⁸

http://www.imowa.com.au/f139,1324064/Combined_RDIWG_Mtg_5_Papers.pdf

Key focus 3: The role of DDAP and UDAP

Downwards Deviation Administration Price (DDAP) and Upwards Deviation Administrative Price (UDAP) penalties are intended to incentivise compliance with Resource Plans. However, this means that Market Participants are not exposed to actual balancing costs (even if a clean balancing price is introduced) and are exposed to the same penalties whether the balancing requirement arose through unavoidable circumstances or inappropriate behaviour. Incentives to avoid the risk of DDAP and UDAP penalties can also create distortions through conservative behaviour (for example, bringing a facility into service before it is actually needed).

Under this Rule Change Proposal, the removal of DDAP and UDAP and calculation of a clean price will mean that Market Participants face the marginal costs of balancing and it will be the responsibility of the compliance regime to target inappropriate behaviour with sanctions determined on a case by case basis.

Key focus 4: LFAS Market

Full LFAS requirements are currently provided by Verve Energy under an administered pricing regime⁹. The proposal provides opportunities for IPPs to compete with Verve Energy to supply LFAS requirements and sets market based LFAS prices.

As for balancing, Market Participants will be able to revise LFAS submissions in response to market forecasts/ conditions, trading off balancing and LFAS costs where capacity is mutually exclusive and adjusting relevant submissions accordingly. Final balancing submissions are able to be made after LFAS selections. Providing forecasts and flexibility to Market Participants means that the LFAS selection process will be relatively straightforward, based on LFAS prices only, compared to market-based co-optimisation methods which select balancing and LFAS simultaneously (although in time more complex methods/ systems could be introduced).

Verve Energy will remain the default LFAS provider as it is likely, at least initially, that alternatives will be limited relative to overall requirements. As default provider Verve Energy will also submit a price for providing back-up LFAS in the event of a facility failure.

Key focus 5: Flexibility/efficiency

The current MCAP pricing curve is established approximately 24 hours before the Trading Day starts and 48 hours before it ends. Uncertainties over this time frame compound the inconsistencies between pricing and dispatch noted above. For example, Verve Energy submits its supply curve before Market Participants' net contract positions and IPP Resource Plans are confirmed; demand and intermittent generation can vary significantly from day-ahead forecasts; Forced Outages can occur.

⁹ Margin peak and off peak pricing based on estimated opportunity costs.

Further, opportunities to respond to changing market requirements (e.g. due to changing demand and wind forecasts, Forced Outages etc) and/ or to vary from contractual positions where economically viable, are currently limited.

STEM is a one shot contractual process. Its efficiency is limited because Market Participants risk being locked into contractual positions which they may not be able to match efficiently or even feasibly with Resource Plans. For example: due to risks of being cleared, or not, in consecutive Trading Intervals.

This Rule Change Proposal addresses these issues by:

- Breaking the direct link between STEM submissions and balancing/ dispatch (except for settlement quantities);
- Enabling all Market Generators to participate in the balancing and LFAS markets and to make initial submissions after STEM outcomes are known;
- Providing regular balancing and LFAS market forecasts to Market Participants; and
- Enabling Market Participants to update their submissions in response to market forecasts and/or changes in their own circumstances, including interactions between balancing and LFAS selections.

Key focus 6: Surveillance and Compliance

As noted above in relation to the removal of DDAP and UDAP, there will be a stronger emphasis on compliance monitoring to detect and sanction inappropriate behaviour. This philosophy is reflected through the proposed amendments and will require a more proactive approach to compliance. For example, the proposed Amending Rules impose obligations of acting in good faith on Market Participants. Accordingly, the IMO plans to expand its compliance team, with a greater emphasis on data analysis including automated monitoring of participant activity.

An important focus of compliance monitoring will be to identify behaviour that attempts to manipulate the accuracy of the market forecasts which Market Participants will rely on to make decisions. For example, IMO scrutiny could be triggered by significant changes in bidding behaviour, especially closer to gate closure, late declarations of Forced Outages or inability to follow dispatch instructions.

Key focus 7: Generation component of net STEM shortfall

At present, a facility which operates below its Resource Plan level by more than its settlement tolerance (of 3 percent) is exposed to Net STEM Shortfall payments for any shortfall relative to its full accredited capacity irrespective of the cause. This has the potential to overstate the impact and/or distort Market Participant decisions. On the other hand, it is important to know that capacity receiving Capacity Credits is actually available if needed.

Under this Rule Change Proposal, this 'generation level' component of the Net STEM Shortfall calculation will be removed. Instead if a facility is considered by the IMO to be at risk of not meeting its physical obligations in relation to the WEM, then the IMO may request it to

undertake a test to ascertain whether it is indeed meeting its obligations if it is not satisfied with the Market Participant's responses to questioning.

Key focus 8: System Management's authority

This Rule Change Proposal preserves System Management's authority for coordinating system security, including intervention if necessary to avoid the system entering a high risk state. All capacity will continue to be available to System Management for dispatch but with increased flexibility through IPP opportunities for economic dispatch through inclusion in the normal Balancing Merit Order. Market Participants' ability to update Balancing Submissions will however be limited initially by a facility Gate Closure of a greater number of hours.

Key focus 9: Confidentiality provisions

Given the increasing importance of market-related information to the operation of the balancing market in particular, the opportunity has also been taken to propose a rationalisation of the current confidentiality-related treatment of market information in Chapter 10 of the Market Rules.

Currently there are several classifications in relation to the treatment of information and its confidentiality. The proposed amendments seek to simplify these classifications and to establish a default preference for the transparency of information unless the IMO – following consultation – deems confidentiality in a particular circumstance is justified. The proposed amendments set out the IMO's decision making rights, its obligation to consult before deeming certain information to be confidential, the rights of those who have access to the confidential information, and to specify certain information that must be made available. Better transparency of information will be a critical factor in the efficient operation of the balancing market in particular but will also provide benefits to the operation of the STEM and LFAS markets.

Supplementary focus: Additional changes

Given the extent of the changes proposed to the Market Rules, the opportunity has also been taken to:

- Address a number of minor and typographical errors identified in the course of reviewing the Market Rules for the balancing and LFAS market and new confidentiality arrangements;
- Adopt a more output/outcome based approach in the drafting of the proposed Amending Rules to remove unnecessary prescription and complexity and encourage alternatives/innovation where this is appropriate.

The IMO considers that these changes will improve the effectiveness and efficiency of the operation of the Market Rules.

Civil penalty clauses, reviewable decisions and protected provisions

A number of changes are proposed to the civil penalty provisions, reviewable and protected provisions. The IMO will seek to have the following clauses 2, 2.13.13A, 7A.2.8, 7A.2.9, 7A.2.13, 7A.2.16, 7B.2.9, 7B.2.10, 7B.2.12, 7B.2.13, 7B.2.17 added as new civil penalties, a new civil penalty to be added to 7.10.1 and the following existing civil penalty clauses to be amended: 3.11.7A, 7.7.9(b), 7.9.1, 7.10.1, 7.10.3, 7.10.6, 7.10.6A. The IMO will consequently seek these changes to be reflected in the list of civil penalty provisions in the Electricity Industry (Wholesale Electricity Market) Regulations 2004.

The following clauses are proposed to be reviewable decisions: 2.10.2A, 2.34.7A, 2.34.7A(c), 2.34.7C, 7A.1.8(iii) and the existing reviewable decision in 10.2.1 amended.

The following clauses are proposed to be protected provisions: 2.10.1A, 2.10.17, 2.10.18, 2.10.19, and 2.13.13A and the existing protected provision clauses to be amended: 2.1.2, 2.16.2, 2.16.4, 2.16.7, 2.16.9, 2.16.9A, 2.16.9B, 2.16.12, 10.2.1, and 10.4.1.

2. Explain the reason for the degree of urgency:

The IMO proposes that the Rule Change Proposal be progressed via the Standard Rule Change Process.

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

See the Attachment.

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

The IMO considers the proposed changes will have the following impact on the Wholesale Market Objectives:

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

Impact on Market Objective (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 new balancing and LFAS market proposal will enable more facilities to be made available for balancing and LFAS, reducing overall dispatch costs and enhancing system flexibility and security.

The balancing and LFAS market proposal preserves System Management's rights and obligations in relation to system security, including intervention if necessary to avoid the system entering a high risk state.

The new confidentiality provisions will improve the effectiveness of the operation of the balancing, LFAS and STEM markets by providing greater information to Market Participants upon which they can prepare bids, for example, than would otherwise be the case.

Impact on Market Objective (b)

to encourage competition among generators and retailers in the South West interconnected system, including by facilitating efficient entry of new competitors;

The balancing and LFAS market proposal will enable IPPs to compete with Verve Energy in the balancing and LFAS markets.

The balancing and LFAS market proposal is likely to make the overall market more attractive to new entrants through:

- More opportunity to participate in balancing and LFAS, without financial disadvantage if dispatched out of merit (for any reason).
- Increased ability to manage exposures to balancing and potentially inefficient STEM/ Resource Plan outcomes.

The balancing and LFAS market proposal and new confidentiality provisions should also likely make the overall market more attractive to new entrants through increased transparency and availability of market information.

By more accurately signalling the need for and value of balancing, the proposal should promote efficient investment (e.g. in relation to the need for and value of flexibility).

Impact on Market Objective (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 balancing and LFAS market proposal and new confidentiality arrangements will create a more level playing field for all generation options and technologies by more clearly signalling the value and cost of balancing and LFAS and system flexibility requirements.

Impact on Market Objective (d)

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

By increasing transparency of information and competition between Market Generators in the balancing and LFAS markets, the balancing and LFAS market proposal and new confidentiality arrangements are likely to drive down balancing and LFAS costs in the short to medium term.

In the longer term, clean cost reflective prices should help to minimise overall system costs by encouraging participants to factor the value of flexibility and/or their actual cost impacts into their investment decisions.

Impact on Market Objective (e)

to encourage the taking of measures to manage the amount of electricity used and when it is used.

The balancing and LFAS market proposal and new confidentiality arrangements may indirectly assist this Market Objective. Providing regular market price forecasts to market customers may facilitate more active demand side response. To the extent this occurs, more cost reflective balancing prices will lead to more efficient trade-offs.

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

The IMO commissioned the Sapere Research Group (Sapere) to undertake an independent study of the likely costs and benefits of the balancing market proposal earlier this year. The study, led by Kieran Murray, quantified a small number of direct benefits of the proposal and compared these benefits with the estimated costs of implementing and operating the proposed arrangements. Estimates were based on optimistic, medium and pessimistic scenarios and were tested for sensitivity to variations in key assumptions. Personnel and systems cost estimates, establishment and ongoing, for all stakeholders were established in consultation with the IMO, System Management and participants. (Note: The costs and benefits of the LFAS market proposal were not separately identified as there was general agreement that both the balancing and LFAS markets should be developed (but not

necessarily implemented) as a package and the balancing components represented the most significant components of that package.)

Key conclusions from the study were that:

- The proposal would yield net benefits to the economy ranging from \$16.8m in the optimistic scenario to \$ 2.1m in the pessimistic scenario;

Table 1: Summary of Sapere Benefit-Cost Study

	High	Medium	Low
Direct Benefits	\$32.48m	\$27.92m	\$24.92m
Costs	\$15.72m	\$19.27m	\$22.83m
Net Benefits	\$16.76m	\$8.65m	\$2.09m
Payback	2.07	1.45	1.09

- Net positive benefits would occur under all but extreme scenarios (e.g. reducing the study horizon from 7 to just 3 years or increasing the discount rate to 33%);
- Actual net benefits are likely to be greater, and may be more significant, than the direct benefits quantified, for example over a longer time-frame and/or indirect benefits (e.g. investment incentives, confidence levels, longer-term transitional impacts and price signalling impacts).

The full Sapere report is available at http://www.imowa.com.au/MAC_37.

There are few material costs arising from the change in the confidentiality provisions and these seem likely to be welfare enhancing as more accurate information will likely improve bidding behaviour in the STEM, and new balancing and LFAS markets over time.

Agenda Item 7a: Working Group Overview

1. WORKING GROUP OVERVIEW

Working Group (WG)	Status	Date commenced	Date concluded	Latest meeting date	Next scheduled meeting date
Reserve Capacity 2007 WG	Closed	Feb 07	May 07	-	-
NTDL WG	Closed	Oct 07	Nov 07	-	-
Energy Limits WG	Closed	Dec 07	Jan 08	-	-
DSM WG	Closed	Jan 08	May 08	-	-
SRC WG	Closed	Jun 08	Sept 08	-	-
Reserve Capacity 2008/09 WG	Closed	Dec 08	Jan 09	-	-
Renewable Energy Generation WG	Closed	Mar 08	Nov 10	-	-
System Management Procedures WG	Active	Jul 07	Ongoing	28/10/2010	TBA
IMO Procedures WG	Active	Dec 07	Ongoing	26/05/2011	TBA
Maximum Reserve Capacity Price WG	Active	May 10	Ongoing	20/06/2011	TBA
Rules Development Implementation WG	Active	Aug 10	Ongoing	30/08/2011	TBA