

Independent Market Operator



Draft Market Rule Change Report

Title: Release of STEM Submission Information

Ref: RC_2007_13

Date: 26 November 2007

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Independent Market Operator

Level 22, The Forrest Centre
221 St George's Terrace, Perth WA 6000
PO Box 7096, Cloisters Square, Perth WA 6850
Tel. (08) 9254 4300
Fax. (08) 9254 4399
Email: imo@imowa.com.au
Website: www.imowa.com.au

1. INTRODUCTION

1.1. *General Information about Rule Changes*

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

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

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

1.2. *About this Rule Change*

On 13 September 2007, the Economic Regulation Authority (ERA) submitted a Rule Change Proposal regarding changes to clause 10.5.1(i)(ii) of the Market Rules.

This Proposal is being processed using the Standard Rule Change Process, described in section 2.7 of the Wholesale Electricity Market Rules.

The Standard Process adheres to the following timelines, outlined in section 2.7 of the Market Rules:

- The Public Submission period is 30 Business Days after the IMO has published the Rule Change Notice for the proposal.
- The IMO must publish a Draft Rule Change report within 20 Business Days of the end of the submission period.

Public Domain

- The second Public Submission period is for a minimum of 20 Business Days from the date the Draft Rule Change Report is published.
- Within 20 Business Days after the end of the second Public Submission period, the IMO must publish a Final Rule Change Report.

The key dates in processing this Rule Change Proposal are:

- The Rule Change Notice for this proposal was published on the IMO website on 17 September 2007.
- The first Public Submission period on the Rule Change Proposal ended on 29 October 2007.
- This Draft Rule Change Report is published on 26 November 2007.
- The second Public Submission period is from 26 November to 24 December 2007.
- The Final Rule Change Report will be published by the IMO on 24 January 2008.

Based on the submissions received, the IMO's draft decision is to accept the Rule Change in the proposed form outlined in section 6 of this report.

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

Interested parties are invited to provide further submissions in relation to this Draft Rule Change Report. In accordance with the Market Rules timelines, the deadline for submissions is 24 December 2007.

2. THE RULE CHANGE PROPOSAL

2.1. *The Submission*

The Economic Regulation Authority (ERA) submitted, on 13 September 2007, a Rule Change Proposal regarding changes to clause 10.5.1(i)(ii) of the Market Rules.

2.1.1. *Submission Details*

Name: Ignatius Chin and/or Adam McHugh
Phone: +61 8 9213 1900
Email: ignatius.chin@era.wa.gov.au,
adam.mchugh@era.wa.gov.au
Organisation: Economic Regulation Authority
Date submitted: 13 September 2007
Urgency: 2
Change Proposal title: Release of STEM Submission Information

2.2. *Details of the Proposal*

The ERA submitted that the current timing of Short Term Energy Market (STEM) Bids and Offers information released to the Public under clause 10.5.1 of the Market Rules is contrary to the Wholesale Market Objectives outlined under clause 1.2.1.

The ERA submitted that a fundamental economic principle that arises from the competitive market model is that market efficiency is compromised by market participants' inability to access, or respond to, market information. The ERA's view was that, in this context, the timing of when information is released is just as critical as its content.

The ERA noted that under clause 10.5.1(i)(ii) of the Market Rules, STEM Bids and Offers information for each Trading Interval is released on the Market Web Site up to two months after the completion of the Trading Day.

The ERA considered that the lack of timely information release is a hindrance to the market's efficient evolution. It is concerned that in the longer run, lagged access to information is a barrier to entry for potential new market participants due to the increased risk that results from the uncertainty surrounding current market conditions.

The ERA noted that Clause 6.6.3 of the Market Rules requires a market generator's Portfolio Supply Curve to reflect its short run marginal cost. It submitted that therefore, a market generator's trading decision should not be influenced by STEM information because short run marginal cost should reflect solely the cost of running the generation plants and be independent of the behaviour of other market generators.

Nevertheless, the ERA considered that the short run marginal cost provision is a temporary measure in the transition to a more competitive market. The ERA submitted that this transition would be better facilitated if current information were

provided to market participants as well as to potential entrants. The ERA's view was that the evolution to a competitive market, as opposed to one that replicates a competitive outcome, would be smoother if the market had earlier access to information.

2.3. Amending Rules Proposed by the ERA

The ERA proposed the following amendments to clause 10.5.1(i)(ii):

10.5.1(i)(ii) for each Trading Interval in each ~~completed Trading Day Week~~ during the 12 calendar months, ~~before the start of the Trading Day ending on the last day of the calendar month two months prior to the current calendar month:~~

- 1. the STEM Offers by Market Participant;*
- 2. the STEM Bids by Market Participant;*
- 3. the quantity bought or sold in the STEM by Market Participant; and*
- 4. the Fuel Declaration, Availability Declaration and, if applicable, Ancillary Service Declaration made by the Market Participant;*

2.4. The IMO's Initial Assessment of the Proposal

The IMO decided to proceed with the proposal on the basis of its preliminary assessment, which indicated that the proposal was consistent with the Market Objectives. This preliminary assessment was published in a Rule Change Notice on 17 September 2007.

3. SUBMISSIONS

The IMO received three submissions, from Landfill Gas and Power Pty Ltd, Synergy and from Alinta Sales Pty Ltd (Alinta). A summary of the submissions is given below. The full text of the submissions can be found on the IMO website.

3.1. Landfill Gas & Power (LGP)

LGP expressed its support for the Rule Change Proposal.

LGP noted that the more timely issue of the STEM Bids and Offers information would result in a more economically efficient pattern of electricity generation and consumption.

3.2. Synergy

Synergy expressed its support for the ERA's rule change proposal. Synergy supported the ERA's view that the lack of timely information release was a hindrance to the market's efficient evolution.

Synergy noted that the proposed changes would provide more timely information to Participants, and considered that the proposed changes would support the operation of objectives (a) and (b) of the Market Objectives.

3.3. Alinta

Alinta agreed with the ERA's view that a lag of two months between bids being made and the information becoming available made the information regarding a participant's bidding behaviour of little value to participants when making decisions to optimise their portfolio positions. Alinta agreed that in a fully competitive market information on bidding behaviour should be available as close as possible to real time.

However, Alinta doubted whether the timeline proposed by the rule change would result in the best outcome in the current environment in the WEM, as about three quarters of generation capacity is still held by a single party, and this makes the generation environment significantly less competitive than, for example, the east coast market.

Alinta expressed concern that in the current environment there might be a detrimental impact on smaller, more vulnerable parties, of making information relating to bidding behaviour available close to real time, as short term imbalances within the portfolios of the participants might be easily revealed by their bidding behaviour.

Accordingly, Alinta proposed to investigate whether there might be merit in closing the lag in publishing information to two weeks after the event. That would ensure that the information was still relevant while still safeguarding against the information being used to gain unfair short-term competitive advantage.

3.4. Market Advisory Committee

The Rule Change Proposal was presented to the Market Advisory Committee (MAC) at its meeting on 10 October 2007. At this meeting MAC expressed general support for this proposal. No member expressed concerns with the proposed change.

MAC was also invited to discuss Alinta's comments at the MAC meeting on 14 November 2007. At the meeting, the ERA restated its preference to have information published as soon as practicable. Alinta reiterated its concern, however, that smaller participants would be disadvantaged if larger generators could capitalise on the information. Alinta argued that, while information should be released as early as practicable, given the current structure of the market, the delay should be sufficiently long to avoid any perceived misuse of the data.

While acknowledging that the requirement in the Rules to bid at short run marginal cost should prevent any inappropriate behaviour, MAC agreed that publication after one week would be sufficient to both satisfy the desire for early release of information and address the concerns raised by Alinta. Both the ERA and Alinta expressed their support for this proposal.

3.5. Public Forums and Workshops

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

4. THE IMO'S ASSESSMENT AND DECISION

4.1. Assessment

4.1.1. Submissions

While LGP and Synergy supported the changes in the ERA proposal, Alinta submitted a preference to have the time limit set to two weeks, not the day after the scheduling day as proposed by the ERA.

In order to obtain a wider view of the merits of Alinta's submission, the IMO invited MAC to discuss the issue at its meeting on 14 November 2007. The conclusion of the MAC meeting was a proposal that the information was to be published seven days after the start of the Trading Day.

The IMO decided to amend MAC's proposal in its draft decision, as it will ensure that STEM bids and offers information is available to participants in a timely manner, while still avoiding the risk of the data being used in an anti-competitive manner, given the current market structure.

4.1.2. The IMO's Assessment

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

The IMO' assessment against each of the Market Objectives is as follows:

- (a) *to promote the economically efficient, safe and reliable production and supply of electricity and electricity related services in the South West interconnected system.*

The IMO considers that timely released market information would assist generators to choose between meeting their contracted supply by generating themselves, or purchasing electricity from cheaper generators in the market.

The IMO also considers that the release of timely information would also assist demand to be more price-responsive. This will in turn reduce peak loads and thus reduce capacity requirement in the long run and expenditure on high cost fuels in the short run.

However, the IMO notes the concerns raised by Alinta and considers that delaying the publication of STEM bids and offers with seven days is necessary to provide confidence to participants that the data will not used to enhance market dominance.

The IMO considers that the proposed changes are, therefore, consistent with the operation of objective (a) of the Market Objectives.

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

The IMO considers that a more transparent wholesale market will reduce the risk that results from uncertainty over market conditions. It considers that this will promote higher competition in generation in the longer run.

However, as noted above, the IMO agrees that the current market structure would warrant a restriction on how early STEM bids and offers can be released.

The IMO considers that the proposed changes are consistent with the operation of objective (b) of the Market Objectives.

- (c) *to avoid discrimination in that market against particular energy options and technologies, including sustainable energy options and technologies such as those that make use of renewable resources or that reduce overall greenhouse gas emissions.*

The IMO considers that the proposed changes do not impact on, and therefore are consistent with, the operation of objective (c) of the Market Objectives.

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

The IMO considers that the proposed changes, as amended after MAC's discussions, are consistent with the operation of objective (d) of the Market Objectives.

- (e) *to encourage the taking of measures to manage the amount of electricity used and when it is used.*

The IMO considers that the proposed changes do not impact on, and therefore are consistent with, the operation of objective (e) of the Market Objectives.

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

The proposed changes will require changes to the Wholesale Electricity Market Systems operated by the IMO. The cost of implementing these changes has been estimated at about \$35,000.

The IMO has found this cost to be acceptable and considers that the benefits the change will bring to Market Participants will outweigh the cost. The implementation of the required system changes will take about one month. No other costs have been identified in relation to this change during the consultation process.

4.2. *IMO's Draft Decision*

The IMO's draft decision is to:

- Accept the proposed changes to clause 10.5.1(i)(ii), with the amendment suggested by MAC to release STEM bid and offer information seven days after the start of each Trading Day.

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

The wording of the relevant amending Rule is presented in section 6 of this Report.

5. CALL FOR SUBMISSIONS

The IMO wishes to receive submissions regarding this Draft Rule Change Report. The submission period is 20 Business Days from the publication date of this Report.

Submissions must be delivered to the IMO by close of business on Monday, 24 December 2007.

The IMO prefers to receive submissions by email to marketadmin@imowa.com.au using the submission form available on the IMO website:
http://www.imowa.com.au/10_5_1_b_rule_change_proposal.htm

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

Independent Market Operator

Attn: Dora Guzeleva, Manager Market Administration
PO Box 7096
Cloisters Square, Perth, WA 6850

Fax: (08) 9254 4399

6. PROPOSED AMENDING RULES

6.1. *Clause 10.5.1*

10.5.1 The IMO must set the class of confidentiality status for the following information under clause 10.2.1, as Public and the IMO must make each item of information available from the IMO Web-Site after that item of information becomes available to the IMO:

(a).....

(i) the following STEM summary information:

i.....

ii for each Trading Interval in each ~~completed~~ Trading Day Week during the 12 calendar months, before the end of the seventh day from the start of the Trading Day ending on the last day of the calendar month two months prior to the current calendar month:

1. the STEM Offers by Market Participant;
2. the STEM Bids by Market Participant;
3. the quantity bought or sold in the STEM by Market Participant; and
4. the Fuel Declaration, Availability Declaration and, if applicable, Ancillary Service Declaration made by the Market Participant;