

Independent Market Operator



Final Market Rule Change Report

Title: Outage Notification to the IMO

Ref: RC_2007_16

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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 17 August 2007, System Management submitted a Rule Change Proposal titled "Outage Notification to the IMO".

The Proposal was processed using the Fast Track Rule Change Process, described in section 2.6 of the Wholesale Electricity Market Rules. The Fast Track Process was used as the proposal satisfied the requirements of clause 2.5.9 (b) of the Market Rules.

The Fast Track Process adheres to the following timelines, outlined in section 2.6 of the Market Rules:

- Within 5 Business Days of a Rule Change Notice being published, the IMO must notify any Rule Participants that the IMO intends to consult regarding the Rule Change.
- Within 5 Business Days of the Rule Change Notice being published, any Rule Participant wishing to be consulted may contact the IMO to request consultation on the Rule Change.
- Within 15 Business Days of the Rule Change Notice being published, all consultations must be concluded.
- Within 20 Business Days of the Rule Change Notice being published, the IMO must publish a Final Rule Change Report.

The key dates in processing this Rule Change Proposal were:

- The Rule Change Notice for this Proposal was published on the IMO website on 27 August 2007.
- On 20 August and 27 August 2007, the IMO notified interested parties that it wished to consult regarding the Rule Change.
- Consultations on the Rule Change Proposal were completed on 17 September 2007.
- This Final Rule Change Report was published on 24 September 2007.

This Final Rule Change Report on the Rule Change Proposal has been prepared by the IMO in accordance with clause 2.6.4 of the Market Rules.

Based on its analysis against the Market Objectives and the responses received from interested parties, the IMO's decision is to accept the Rule Change in the form outlined in this Final Report.

The amendments to clauses 3.18.6, 3.21.4, 3.21.5, 3.21.6, 6.3A.2, 7.3.4 and 7.13.1 of the Wholesale Electricity Market Rules will commence at 08.00am on 4 October 2007.

2. THE RULE CHANGE PROPOSAL

2.1. *The Submission*

System Management submitted, on 17 August 2007, a Rule Change Proposal regarding the addition of new clauses 3.21.5 and 3.21.6, and amendments to clauses 3.18.6, 3.21.4, 6.3A.2, 7.3.4 and 7.13.1, of the Wholesale Electricity Market Rules.

2.1.1. *Submission details*

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Organisation: System Management
Date submitted: 17 August 2007
Urgency: High – Fast Track

2.2. *The Proposal*

System Management submitted that currently the Reserve Capacity Refund Mechanism results in an inequitable treatment of certain Market Participants with respect to unplanned outages. Participants with Scheduled Generators that have available capacity greater than their Reserve Capacity Obligation Quantity (RCOQ) are penalised in the event of a forced outage of that extra capacity.

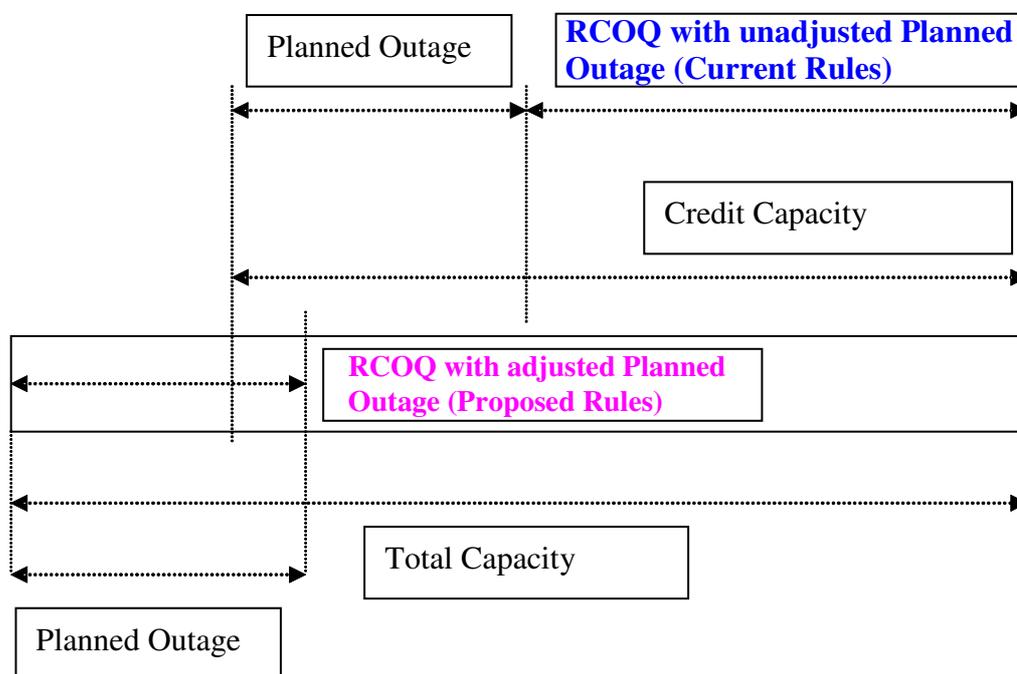
For example, according to System Management's submission, if a facility that is providing 120 MW, with an RCOQ of 100 MW, has an unplanned outage of 30 MW, the Participant will pay refunds for the entire 30 MW. This is inequitable as the Participant only receives payment for the provision of 100 MW of capacity. In effect the Participant is being disadvantaged for providing capacity in excess of its RCOQ. An equitable approach would result in a refund for only 10 MW.

System Management submitted that this discrepancy penalises those Participants with facilities that have available capacity greater than RCOQ. This may provide a disincentive for Participants to provide capacity to the SWIS in excess of their RCOQ. This, in turn, may impact upon Power System Security and Reliability, and reduce the opportunity for all Participants to schedule planned outages due to reduced effective system margins.

Following discussions with the IMO and Verve Energy, System Management proposed to adjust both Forced and Planned Outages, to take into account the amount of the excess capacity available at 41 degrees Celsius for both types of outages.

System Management submitted that currently, the RCOQ is reduced from the Reserve Capacity Credits awarded to a facility by a Planned Outage. Without adjusting the Planned Outage amount, the facility's RCOQ will be reduced from the capacity credits to a level that would result in a capacity below that which the facility is capable of providing. It is therefore appropriate to adjust the Planned Outage to take into account the excess capacity before adjusting the facility's RCOQ.

The adjusted Planned Outage amount would therefore reduce the facility RCOQ to the level marked as 'Proposed Rules' in the diagram below. This is the level the facility is capable of performing.



2.3. The Proposal and the Market Objectives

System Management submitted that the proposed Rule Change will better address the following Market Objectives, 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;*

This Rule Change Proposal would encourage Participants to provide capacity to the SWIS which is in excess of their RCOQ. This would increase Power System Security and Reliability.

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

This Rule Change Proposal would remove inequitable penalties to Participants with capacity in excess of their RCOQ, and would allow further opportunity for Participants to schedule planned outages due to increased system margins. Both of these would reduce costs to Participants and therefore reduce the long-term cost of electricity supplied to customers.

2.4. Amending Rules Proposed by System Management

The amendments proposed by System Management can be found in section 5 of this Report.

2.5. The IMO's Initial Assessment of the Proposal

The IMO decided to proceed with the Rule Change Proposal on the basis of its preliminary assessment which indicated that the Proposal was consistent with the Market Objectives.

The proposal was processed using the Fast Track Rule Change process described in section 2.6 of the Wholesale Electricity Market Rules. The Fast Track Process was used as the proposal satisfied the requirements of clause 2.5.9 (b) of the Market Rules. The change was considered to be a manifest error that should be corrected in a timely manner to avoid further unintended financial consequences for the affected Participants.

Section 2.5.9 states:

The IMO may subject a Rule Change Proposal to the Fast Track Rule Change Process if, in its opinion, the Rule Change Proposal:

- (a) is of a minor or procedural nature; or*
- (b) is required to correct a manifest error; or*
- (c) is urgently required and is essential for the safe, effective and reliable operation of the market or the SWIS.*

3. RULE PARTICIPANTS CONSULTED

For this Rule Change, the IMO notified the following interested parties of its intention to consult:

- Alcoa World Alumina Australia
- Alinta Sales Pty Ltd
- Barrick (Kanowna) Limited
- Bioenergy Limited
- Economic Regulation Authority
- Eneabba Gas Pty Ltd
- Griffin Energy
- Landfill Gas and Power Pty Ltd
- Mount Herron Engineering
- NewGen Power Kwinana Pty Ltd
- Newmont Australia Ltd.
- Office of Energy
- Perth Energy Pty Ltd
- Premier Power Sales Pty Ltd
- Skyfarming Pty Ltd
- Synergy Energy
- System Management
- TransAlta Energy
- Verve Energy
- Wambo Power Ventures
- Waste Gas Resources Pty Ltd
- Water Corporation
- Western Australia Biomass Pty Ltd (Babcock and Brown)
- Western Power Corporation

The IMO first invited these interested parties to indicate their interest to participate in consultations on the Proposal on 20 August 2007. The IMO indicated that it would hold consultations with interested parties between 28 August and 17 September 2007.

In addition, an invitation for all Rule Participants to contact the IMO, should they wish to be consulted on this Rule Change, was published on the IMO website on 27 August 2007 together with the Rule Change Proposal Notice.

The IMO received responses to its consultation request from Alinta Sales Pty Ltd, the Economic Regulation Authority (ERA), System Management and Verve Energy. The IMO informed these parties that it intended to hold a Workshop on the Rule Change. All interested parties accepted the invitation to the Workshop, which was held on 13 September 2007.

In addition to the parties wishing to participate in the Workshop, the IMO received written submissions from Landfill Gas and Power and Synergy Energy.

Below is a summary of the Workshop and received feedback.

3.1. Market Advisory Committee

The Market Advisory Committee (MAC) was invited to have preliminary discussions on the Proposal at its meeting on 11 July 2007, before it was formally submitted by System Management.

At the MAC meeting, Verve Energy expressed a concern with the details of the calculations proposed by System Management. The main issue was that extra capacity which does not have capacity credits was still taken into account in the proposed calculations even though this capacity is not available to the market.

MAC endorsed the intent of the rule change and expressed its support of the change once the calculation issue was resolved. Subsequently, the IMO, System Management and Verve Energy discussed the issues raised by Verve Energy and an amended proposal was submitted to the IMO as the formal Rule Change Proposal being assessed in this Report.

3.2. Workshop

A workshop on the Rule Change Proposal was held by the IMO on 13 September 2007. The workshop was attended by the ERA, System Management, Verve Energy and the IMO. The IMO presented the proposed rule changes and the workshop participants endorsed the changes as proposed. Alinta Sales, which was invited to attend but not represented at the workshop, has not expressed any concerns regarding the proposed Rule Change.

3.3. Landfill Gas and Power

Landfill Gas and Power (LGP) expressed its support for the proposed change. LGP supported System Management's view that the proposed changes would correct a manifest error in the Market Rules that results in unintended inequitable penalties for Participants with capacity in excess of their RCOQ. LGP submitted that Participants should only have to pay refunds for outages that reduce their ability to meet their RCOQ.

3.4. Synergy Energy

Synergy expressed its support for the proposed changes.

4. THE IMO'S ASSESSMENT AND DECISION

4.1. Assessment

4.1.1. Consultations

All parties responding to IMO's request for consultation expressed support for System Management's proposal. No party expressed any concerns or proposed any amendments to the proposed amendments to the Market Rules.

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

Assessment: The proposed changes will encourage Participants to provide available capacity in excess of their RCOQ to the SWIS without concerns of incurring penalties for that excess capacity in case of forced outages. Encouraging participants to make capacity in excess of RCOQs available to the market would also enhance the opportunities to schedule planned outages due to increased system margins.

The IMO considers that the proposed changes are consistent with the operation of objective (a) of the Market Objectives. In its submission, Landfill Gas and Power supported this assessment.

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

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

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

Assessment: 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

Assessment: The proposed changes will remove a current deficiency in the Market Rules which has the potential to impose unjustified penalties to participants that make available capacity in excess of their RCOQ. This will reduce the cost incurred by affected generators in the Reserve Capacity Mechanism and thus the costs that are passed through to customers.

The IMO considers that the proposed changes are consistent with objective (d) of the Market Objectives. Landfill Gas and Power supported this assessment in its submission.

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

Assessment: 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 amendments will require minor changes to System Management's IT systems. System Management has informed the IMO that these changes will be in place by the commencement date of this rule change and that the implementation costs are covered within System Management's current IT budget.

No other implementations costs in regard to this change have been identified during the public consultations.

4.2. The IMO's Decision

The IMO's decision is to:

- Accept System Management's proposed new clauses 3.21.5 and 3.21.6 and the proposed amendments to clauses 3.18.6, 3.21.4, 6.3A.2, 7.3.4 and 7.13.1, of the Wholesale Electricity Market Rules

The IMO has made its decision on the basis that the resulting Amending Rules are consistent with the Market Objectives.

The wording of the relevant Amending Rules is presented in Chapter 5 of this Report.

4.3. Amending Rules Commencement

The amendments to clauses 3.18.6, 3.21.4, 3.21.5, 3.21.6, 6.3A.2, 7.3.4 and 7.13.1 of the Wholesale Electricity Market Rules will commence at 08.00am on 4 October 2007.

5. AMENDING RULES

The following clauses will be amended as follows (~~deleted wording~~, new wording):

- 3.18.6. The information submitted in an Outage Plan must include:
- (a) identity of the Facility or item of equipment that will be unavailable;
 - (b) the quantity of any de-rating, where, if the Facility is a generating system, this quantity is in accordance with clause 3.21.5;
 - (c) the reason for the outage;
 - (d) the proposed start and end times of the outage;
 - (e) an assessment of risks that might extend the outage;
 - (f) details of the time it would take the Facility or item of equipment to return to service, if required; and
 - (g) contingency plans for the early return to service of the Facility or item of equipment (“Outage Contingency Plans”).
- 3.21.4. If a Facility or item of equipment that is on the list described in clause 3.18.2 or a Facility or generation system to which clause 3.18.2A relates suffers a Forced Outage or Consequential Outage, then the relevant Market Participant or Network Operator must inform System Management of the outage as soon as practical. Information provided to System Management must include:
- (a) the time the outage commenced;
 - (b) an estimate of the time the outage is expected to end;
 - (c) the cause of the outage;
 - (d) the Facility or item of equipment or Facilities or items of equipment affected; and
 - (e) for each affected Facility or item of equipment, the expected quantity of any de-rating available capacity by Trading Interval, where, if the Facility is a generating system, this quantity is to be submitted in accordance with clause 3.21.5.
- 3.21.5 The quantity of an outage notification submitted to System Management is the reduction in capacity from the relevant Facility’s maximum capacity measured on a sent out basis at 41 degrees Celsius where the maximum capacity is as found in the Standing Data file for Temperature Dependence provided under Appendix 1(b) iv and converted to a sent out basis at 41 degrees Celsius. The remaining capacity, determined as the maximum capacity minus the notified outage, must be available to System Management for dispatch.
- 3.21.6 The following will apply for the purposes of clauses 7.3.4 (a) and 7.13.1 (e):

- a) outage data will be entered by Market Participants in System Management's computer interface system on a sent out basis at 15 degrees Celsius. System Management will convert the outage data to a sent out basis at 41 degrees Celsius by multiplying the outage quantity at 15 degrees Celsius by the ratio of the maximum capacity at 41 degrees Celsius to the maximum capacity at 15 degrees Celsius for the Facility as found in the Standing Data file for temperature dependence provided under Appendix 1(b) iv on a generated basis for that facility. Market Participants will submit the outage data at 41 degrees Celsius as displayed by System Management's computer interface system;
- b) System Management will calculate the Forced Outage (on a sent out basis at 41 degrees Celsius) for a Facility in a Trading Interval as the greater of:
 - i. zero and
 - ii. the sum of all Forced Outages notified for that Facility minus the difference of the Facility maximum capacity and its Reserve Capacity Obligation Quantity;
- c) System Management will calculate the Planned Outage (on a sent out basis at 41 degrees Celsius) for a Facility in a Trading Interval as the greater of:
 - i. zero and
 - ii. the sum of all Planned Outages minus the greater of:
 - 1. zero and
 - 2. the maximum capacity of the Facility minus its Reserve Capacity Obligation Quantity minus the sum of all Forced Outages notified for the Facility before the adjustment in (a) above is made by System Management; and
- d) System Management will calculate the Consequential Outage (on a sent out basis at 41 degrees Celsius) for a Facility in a Trading Interval as the greater of:
 - i. zero and
 - ii. the sum of all Consequential Outages minus the greater of:
 - 1. zero and
 - 2. the maximum capacity of the Facility minus its Reserve Capacity Obligation Quantity minus the sum of all Forced Outages and the sum of all Planned Outages notified for the Facility before the adjustments in (a) and (b) above are made by System Management;
- e) the IMO will provide System Management the Reserve Capacity Obligation Quantity of each Facility as currently applicable;
- f) the maximum capacity used in this clause is the value defined in clause 3.21.5.

6.3A.2 By 9:00 AM on the Scheduling Day the IMO must have calculated and released to each Market Participant the following parameters to be respected by that Market Participant in forming its STEM Submissions for each Trading Interval in the Trading Day:

- (a) the Maximum Supply Capability where this equals the maximum Loss Factor adjusted quantity of energy, in units of MWh, that could be

supplied during the Trading Interval based on the Standing Data of that Market Participant's Scheduled Generators and Non-Scheduled Generators and assuming the use of the fuel which maximises the capacity of each Facility:

- i. less an allowance for outages of which the IMO has been made aware by System Management in accordance with clauses 7.3.4 or 7.3.6; and
- ii. less, for each Market Participant that is a provider of Ancillary Services, the estimated Loss Factor adjusted quantity of energy, in units of MWh, that could potentially be called upon by System Management from that Market Participant after 1:00 PM on the Scheduling Day to meet Ancillary Service requirements for each Trading Interval of the Trading Day, as provided to the IMO by System Management in accordance with clauses 7.2.3B or 7.2.3C; and

where the Maximum Supply Capability may be higher than the actual capacity available during the Trading Interval;

[other subclauses not shown]

7.3.4. System Management must provide to the IMO the following information:

- (a) a schedule of Planned Outages, Forced Outages and Consequential Outages for each Registered Facility of which System Management is aware at that time, where outages are calculated in accordance with clause 3.21.6;
- (b) [Blank]

for each Trading Interval of a Trading Day, between 8:00 AM and 8:30 AM on the Scheduling Day prior to the Trading Day.

7.13.1. System Management must provide the IMO with the following data for a Trading Day by noon on the first Business Day following the day on which the Trading Day ends:

- (e) the schedule of all Planned Outages, Forced Outages and Consequential Outages relating to each Trading Interval in the Trading Day by Market Participant and Facility, for any Facility with a Reserve Capacity Obligation Quantity greater than zero, where outages are calculated in accordance with clause 3.21.6;

[other subclauses not shown]