

The background of the lower section is a photograph of a wind farm and power lines, overlaid with a semi-transparent blue filter. On the left, several white wind turbines are visible, with their blades extending outwards. On the right, a tall metal lattice tower for power lines stands prominently, with several power lines stretching across the frame. The overall scene is set against a clear sky.

Independent Market Operator

Rule Change Notice

Title: The use of tolerance levels by System Management

Ref: RC_2009_22

Standard Rule Change Process

Date: 15 February 2010

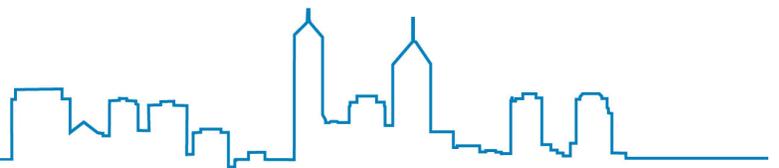
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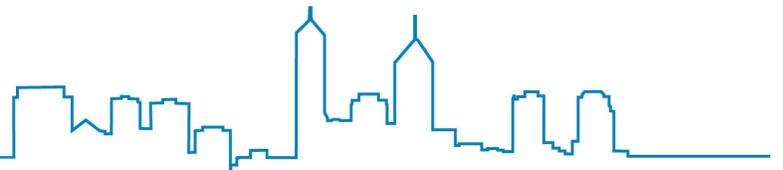
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1. THE RULE CHANGE PROPOSAL

1.1. The Submission

On 15 October 2009 System Management submitted a Rule Change Proposal regarding amendments to clauses 2.13.6, 2.13.8, 7.10.5, and Chapter 11 and the proposed new clauses 2.13.6A, 2.13.6B, 2.13.6C, 2.13.6D, 2.13.6E, 2.13.6F, 2.13.6G, 2.13.6H, 2.10.5B, 7.10.5B, and 7.10.5C of the Wholesale Electricity Market Rules (Market Rules).

This Rule Change Notice is published according to Market Rule 2.5.7, which requires the Independent Market Operator (IMO) to publish a notice within 7 Business Days of receiving a Rule Change Proposal.

1.1.1 Submission details

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Date submitted:	15 October 2009
Urgency:	Standard Rule Change Process
Change Proposal title:	The use of tolerance levels by System Management
Market Rule(s) affected:	2.13.6, new 2.13.6A, new 2.13.6B, new 2.13.6C, new 2.13.6D, new 2.13.6E, new 2.13.6F, new 2.13.6G, new 2.13.6H, 2.13.8, 7.10.5, new 7.10.5B , new 7.10.5C, Chapter 11

1.2. Details of the Proposal

Background

A Rule Participant must comply with the provisions of the Market Rules referred to in clause 2.13.9. Market Rule 2.13.6 requires System Management to monitor and report alleged breaches by a Rule Participant of the Market Rules to the IMO. Since the market began, System Management has, with the knowledge of Rule Participants, implemented a tolerance range before reporting alleged breaches to the IMO. The proposed Market Rule changes will clarify System Management's reporting obligation by expressly allowing for the use of a tolerance range.

This rule change proposal involves changes to clauses 2.13 and 7.10, which will provide guidance for, and increase the transparency of, activities of System Management.

Market Rule 2.13

On a strict literal interpretation of Market Rule 2.13, System Management might be required to report to the IMO alleged breaches even if they are trivial, insignificant or completely immaterial. This interpretation is overly legalistic and does not take into account the realities associated with



operating the SWIS in a secure and reliable manner on a day to day basis, nor any other settlement penalties (forced outage refunds, upwards and downwards deviation administered price, for example) which might otherwise be applicable.

The monitoring and reporting obligations that a strict literal interpretation would produce are substantial and System Management does not believe that it is the intention of the Market Rules or the Wholesale Electricity Market objectives to produce this outcome.

Since the market began, System Management has, with the knowledge of the Rule Participants, implemented a tolerance range before reporting the alleged breaches as follows:

- (a) if a Rule Participant's compliance is outside the tolerance range threshold then System Management must report the alleged breach to the IMO; and
- (b) if a Rule Participant's compliance is within the tolerance range then System Management may (or may not) report the alleged breach to the IMO.

The proposed Market Rule changes will clarify System Management's reporting obligation by expressly allowing for the use of a tolerance range.

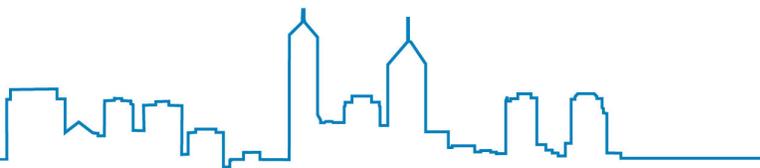
Market Rule 7.10

The proposed Market Rule changes will clarify System Management's reporting obligation in respect of Market Rule 7.10.1 by expressly allowing System Management to consider whether a Rule Participant is generating at a level above or below its Resource Plan or Dispatch Instruction when using a tolerance range.

Since the market began, System Management has, with the knowledge of Rule Participants, implemented a tolerance range in respect of alleged breaches of Market Rule 7.10.1 as follows:

- (a) if the alleged breach is within the tolerance range then System Management may (or may not) report the alleged breach to the IMO;
- (b) if the alleged breach is outside the tolerance range and it relates to the Rule Participant generating at a level above its Resource Plan or Dispatch Instruction, then System Management must report the alleged breach to the IMO; and
- (c) if the alleged breach is outside the tolerance range and it relates to the Rule Participant generating at a level below its Resource Plan or Dispatch Instruction, and the Rule Participant has logged a Forced Outage then System Management may (or may not) report the alleged breach to the IMO.

Market Rule 7.10.5 requires System Management to warn a Rule Participant in certain circumstances when the Rule Participant is in alleged breach of Market Rule 7.10.1. Since the market began, System Management has, with the knowledge of the Rule Participants, only warned a Rule Participant of an alleged breach when the Rule Participant's compliance is outside the tolerance range threshold. This reflects the fact that a Resource Plan provides a required average MW value over a half hour – therefore “real-time” deviations are difficult to identify because the Resource Plan does not indicate the actual output of the Facility at any



particular moment. However, a strict and literal reading of Market Rule 7.10.5 requires System Management to warn a Rule Participant even when the Rule Participant's alleged breach is within the tolerance range, which would impose a substantial monitoring and reporting obligations on System Management.

The proposed Market Rule changes will clarify System Management's obligations in respect of Market Rule 7.10.5 by expressly stating that System Management is not obliged to issue a warning to a Rule Participant if the Rule Participant's alleged breach is within the tolerance range.

Summary

The proposed Market Rule change will clarify System Management's reporting obligations by expressly allowing for the use of a tolerance range. Given the significant differences between facilities in the SWIS it is not proposed to incorporate tolerances themselves within the rule change; rather, the tolerance will be determined (and made transparent) by System Management in a similar fashion to the way System Management currently determines the content of the equipment list for the purposes of outage planning (refer clause 3.18.2 of the Market Rules).

System Management submits that this rule change will ensure consistency between the Market Rules and the long standing practices of System Management and will not have an adverse impact upon system security or reliability. In addition, the rule change will not affect settlement outcomes nor constrain the ability of the IMO to investigate behaviour which might not be reported to the IMO under the tolerance regime.

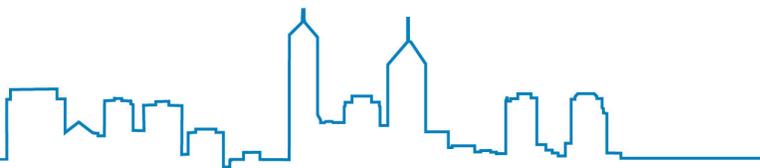
1.3. The Proposal and the Wholesale Market Objectives

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

System Management considers that economic efficiency will be promoted by ensuring that significant and unnecessary compliance costs are not imposed on System Management, Rule Participants and the IMO. Economic efficiency will also be promoted by providing certainty and transparency for Rule Participants as to the role of System Management in using Tolerance Ranges.

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

System Management considers that a strict interpretation of the current provisions of the Market Rules will impose a significant and unnecessary compliance cost on Rule Participants which may discourage the entry of new competitors into the Market. System Management contends that the proposed rule change will ensure that unnecessary compliance costs are not incurred by Rule Participants which will ensure that potential new entrants do not see unjustified compliance costs as a potential barrier to entry.



- (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.*

System Management 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.*

A strict interpretation of the current provisions of the Market Rules will impose a significant and unnecessary compliance cost on System Management, Rule Participants and the IMO which may be past on to consumers. System Management considers that the proposed change will ensure that significant and unnecessary administrative costs are not incurred by System Management, Rule Participants, and the IMO.

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

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

2. WHETHER THE PROPOSAL WILL BE PROGRESSED FURTHER

The IMO has decided to proceed with this proposal on the basis that the IMO's preliminary assessment indicated that the proposal is consistent with the Wholesale Market Objectives.

This Rule Change Proposal will be processed using the Standard Rule Change Process, described in section 2.7 of the Market Rules.

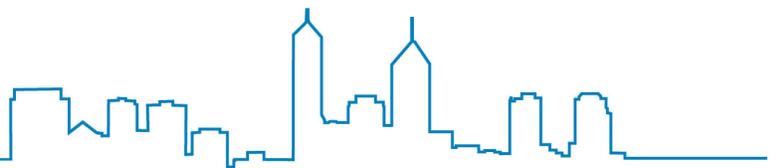
2.1 Extension of publishing the Draft Rule Change Report (16 October 2009)

Clause 2.7.6 of the Market Rules requires the IMO to prepare and publish a Draft Rule Change Report within 20 Business Days following the close of submissions. This would require the IMO to publish the Draft Rule Change Report for RC_2009_22 by 29 December 2009.

Due to resource availability over the Christmas period and in accordance with clause 2.5.10 of the Market Rules the IMO decided to extend the timeframe for preparing the Draft Rule Change Report for this Rule Change Proposal until 14 January 2009. A notice of this extension was published under clause 2.5.12 on the IMO website on 16 October 2009.

2.2. Second Extension of publishing the Draft Rule Change Report (14 January 2010)

The IMO extended the timeframe for publishing of the Draft Rule Change Report for this Rule Change Proposal until 4 February 2010. This extension was in accordance with clause 2.5.10 of the Market Rules. A notice of this extension was published under clause 2.5.12 on the IMO



website on 13 January 2010, as required by clause 2.5.12 and notified to interested stakeholders in the IMO's RulesWatch volume 2 issue 3, published on 18 January 2010.

2.3. Third Extension of publishing the Draft Rule Change Report (4 February 2010)

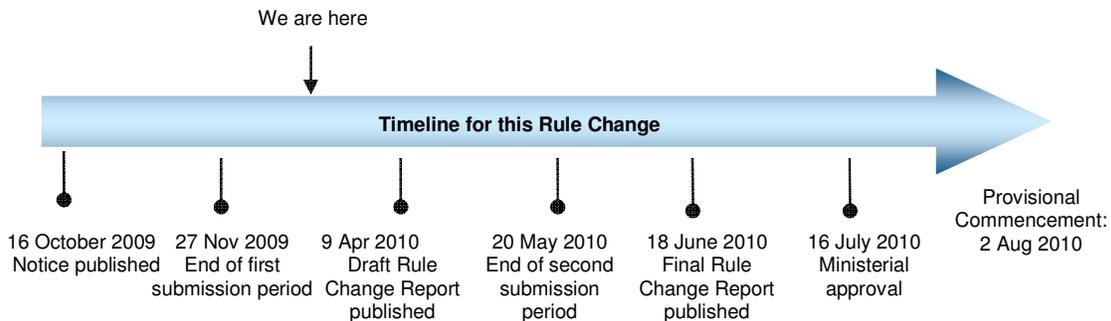
The IMO extended the timeframe for publishing of the Draft Rule Change Report for this Rule Change Proposal until 23 February 2010. This extension was in accordance with clause 2.5.10 of the Market Rules. A notice of this extension was published under clause 2.5.12 on the IMO website on 4 February 2010, as required by clause 2.5.12 and notified to interested stakeholders in the IMO's RulesWatch volume 2 issue 6, published on 8 February 2010.

2.4. Fourth Extension of publishing the Draft Rule Change Report (15 February 2010)

The IMO extended the timeframe for publishing of the Draft Rule Change Report for this Rule Change Proposal until 9 April 2010. This extension was in accordance with clause 2.5.10 of the Market Rules. A notice of this extension was published under clause 2.5.12 on the IMO website on 15 February 2010, as required by clause 2.5.12 and notified to interested stakeholders in the IMO's RulesWatch volume 2 issue 7, published on 15 February 2010.

Note that only section two of this Rule Change Notice has been updated with the revised timelines following the notice of extension. All other parts of this document remain unchanged from the original version published on 16 October 2009.

The projected timelines for processing this proposal, including the extension for preparing the Draft Rule Change Report are:



Please note that the Commencement Date is provisional and may be subject to change in the Final Rule Change Report.

3. CALL FOR SUBMISSIONS

PLEASE NOTE: The IMO did not extend the first submission period, which has closed.

The IMO is seeking submissions regarding this proposal. The submission period is 30 Business Days from the publication date of this Rule Change Notice. Submissions must be delivered to the IMO by the close of business on **Friday 27 November 2009**.

The IMO prefers to receive submissions by email to market.development@imowa.com.au using the submission form available on the IMO website:

http://www.imowa.com.au/10_5_1_MarketRulesChangeSummary.html

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

Independent Market Operator
Attn: Manager Market Development and System Capacity
PO Box 7096
Cloisters Square, Perth, WA 6850

Fax: (08) 9254 4399

4. PROPOSED AMENDING RULES

System Management proposes the following amendments to the Market Rules (~~deleted text, added text~~):

Market Rule 2.13.6

System Management must monitor Rule Participants' behaviour for compliance with the provisions of the Market Rules referred to in clause 2.13.9 and Market Procedures developed by System Management. ~~System Management must report any alleged breaches of those provisions or Market Procedures to the IMO, in accordance with the Monitoring and Reporting Protocol.~~

New Market Rule 2.13.6A

Subject to clause 2.13.6B, System Management must report any alleged breaches of those provisions or Market Procedures to the IMO, in accordance with the Monitoring and Reporting Protocol.

New Market Rule 2.13.6B

System Management is not required to report an alleged breach by a Rule Participant of the clauses of the Market Rules referred to in Market Rule 2.13.9 or the Power System Operation Procedures developed by System Management to the IMO if:

- (a) the extent of the alleged breach is within the Facility Tolerance Range; or
- (b) the breach is limited to occurring within a single Trading Interval; or

(c) the alleged breach relates to clause 7.10.1 and is outside the Facility Tolerance Range, if:

- i. the Rule Participant has notified System Management of a Forced Outage in accordance with clause 3.21.4 that is applicable to the period of the alleged breach; and
- ii. the alleged breach relates to the Rule Participant generating at a level below its Resource Plan or the Dispatch Instruction applicable to the relevant Forced Outage period.

provided that nothing in this clause will relieve System Management of its obligation to report to the IMO any other alleged breach by a Rule Participant of clause 7.10.1.

New Market Rule 2.13.6C

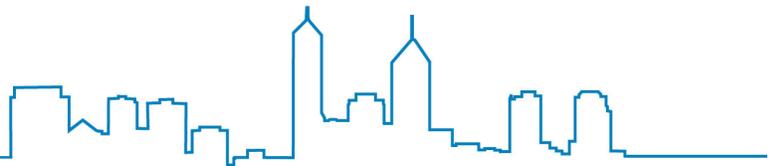
Nothing in clause 2.13.6B relieves:

- (a) System Management from its obligation to monitor Rule Participants' behaviour pursuant to clause 2.13.6; or
- (b) Rule Participants' from the obligation to fully comply with the provisions of the Market Rules and Power System Operation Procedures (including where any breach may be within the Facility Tolerance Range whether or not the alleged breach is reported by System Management).

New Market Rule 2.13.6D

System Management may determine the Facility Tolerance Range to apply to each Facility and for each relevant Market Rule or Power System Operation Procedures. System Management:

- (a) may review the Facility Tolerance Range from time to time and may change the Tolerance Range to apply to any one or more Facilities from time to time;
- (b) must not set a Facility Tolerance Range exceeding 50% of the Reserve Capacity for that Facility where the obligation relates to MW output;
- (c) may determine a different Facility Tolerance Range for a Facility based on one or more of the following factors:
 - i. the time of the year;
 - ii. the time of the day;
 - ii. the Market Rule in question; and
 - iv. any other matter considered relevant by System Management for a Facility;
- (d) must review the Facility Tolerance Range for a Facility at least yearly;



- (f) must consult with the affected Facility before publishing a Facility Tolerance Range; and
- (g) must submit the Facility Tolerance Range for each Facility to the IMO for publishing on the Market Web-site, including an effective date for the commencement of the Facility Tolerance Range, at least 14 Business Days prior to the date from which change to the Facility Tolerance Range becomes effective.

New Market Rule 2.13.6E

The IMO must publish any Facility Tolerance Range information within 5 Business Days of being provided that information by System Management.

New Market Rule 2.13.6F

System Management must not show bias towards a Rule Participant in respect to the Facility Tolerance Range.

New Market Rule 2.13.6G

A Rule Participant may request, in writing, that the IMO reassess a Facility Tolerance Range for that Rule Participant's Facility. Once such a request is made in writing:

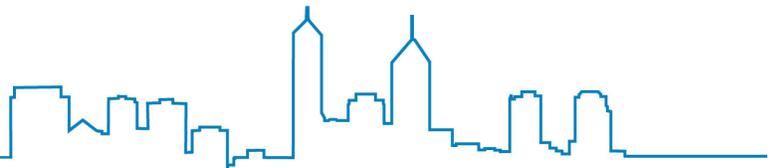
- (a) the IMO must consult with System Management and the Rule Participant concerning the Facility Tolerance Range;
- (b) the IMO may give a direction to System Management to vary a Facility Tolerance Range where it finds that:
 - i. System Management has not followed the Market Rules or the Power System Operation Procedure in determining the Facility Tolerance Range; or
 - ii. The IMO deems, based on the information provided by the Rule Participant, that the Facility Tolerance Range is not reasonable.
- (c) the IMO must complete the assessment within 10 Business Days from receipt of the request.

New Market Rule 2.13.6G

Where the IMO makes a direction under clause 2.13.6G, that direction will apply until the next review occurs as per clause 2.13.6D.

Market Rule 2.13.8

If System Management becomes aware of an alleged breach of the Market Rules referred to in clause 2.13.9 or Power System Operation Procedures as a result of its monitoring activities, then it must:



- (a) record the alleged breach of the Market Rules or Market Procedures; and
- (b) subject to clause 2.13.6B, notify the IMO of the alleged breach in accordance with clause 2.13.6 or, in the case of an alleged breach by the IMO, notify the person referred to in clause 2.13.1 in accordance with clause 2.13.5.

Market Rule 7.10.5

Subject to clause 7.10.5A, where System Management considers that a Market Participant has not complied with clause 7.10.1 in relation to any of its Registered Facilities in a manner that:

- (a) threatens Power System Security or Power System Reliability;
- (b) would require System Management to issue instructions to the Registered Facilities of the Electricity Generation Corporation or Registered Facilities covered by any Balancing Support Contract or Ancillary Service Contract; or
- (c) would require System Management to issue Dispatch Instructions to other Registered Facilities in accordance with clauses 7.6.3 or 7.6.4;

~~System Management must warn the Market Participant about the deviation and request an explanation for the deviation; and cessation of the behaviour within a time that System Management considers reasonable.~~
then clause 7.105B applies.

New Market Rule 7.10.5B

If clause 7.10.5 applies, provided that the behaviour does not fall within the Facility Tolerance Range for that Facility, System Management must

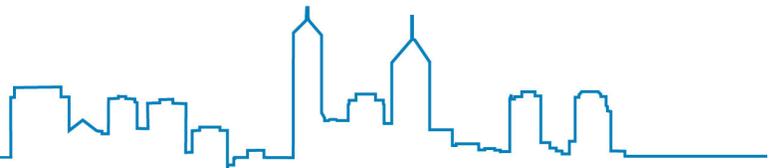
- (a) warn the Market Participant about the deviation; and
- (b) request an explanation for the deviation; and
- (c) request cessation of the behaviour within a time that System Management considers reasonable.

Market Rule 7.10.5C

Where clause 7.10.5B applies, it is deemed to apply for the entire Trading Interval.

Chapter 11

Facility Tolerance Range: The quantity by which the availability, generation or demand of a Rule Participant, as measured by SCADA data or other information available to System Management, can deviate from each obligation imposed under the Market Rules before System Management must allege a breach, as determined under clause 2.13.6A.



5. ABOUT RULE CHANGE PROPOSALS

Market Rule 2.5.1 of the Market Rules provides that any person (including the IMO) may make a Rule Change Proposal by completing a Rule Change Proposal Form and submit this to the IMO.

The IMO will assess the proposal and, within 5 Business Days of receiving the proposal form, will notify the proponent whether the proposal will be progressed further.

In order for the proposal to be progressed the change proposal must explain how it will enable the Market Rules to better contribute to the achievement of the Wholesale Market Objectives. The market objectives are:

- (a) to promote the economically efficient, safe and reliable production and supply of electricity and electricity related services in the South West interconnected system;
- (b) to encourage competition among generators and retailers in the South West interconnected system, including by facilitating efficient entry of new competitors;
- (c) to avoid discrimination in that market against particular energy options and technologies, including sustainable energy options and technologies such as those that make use of renewable resources or that reduce overall greenhouse gas emissions;
- (d) to minimise the long-term cost of electricity supplied to customers from the South West interconnected system; and
- (e) to encourage the taking of measures to manage the amount of electricity used and when it is used.

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

