

RULE CHANGE NOTICE

CONSTRAINED ON AND OFF PRICES FOR NON-SCHEDULED GENERATORS

(RC_2012_08)

This notice is given under clause 2.5.7 of the Market Rules.

Date Submitted: 1 June 2012

Submitter: Suzanne Frame

THE PROPOSAL

The new Balancing Market arrangements resulting from the Rule Change Proposal: Competitive Balancing and Load Following Market (RC_2011_10) include the payment of Constrained On Compensation and Constrained Off Compensation to Market Generators for out of merit dispatch. Two errors affecting the calculation of these payments for Non-Scheduled Generators have been identified in the proposed Amending Rules for RC_2011_10.

The IMO proposes to correct the order of the terms in the subtractions in new clauses 6.17.3A(b) and 6.17.4A(b), so that Constrained On Compensation Prices and Constrained Off Compensation Prices for Non-Scheduled Generators are calculated as positive amounts. The proposed amendments will bring these calculations into alignment with the corresponding calculations for Scheduled Generators and the Verve Energy Balancing Portfolio and will ensure that Non-Scheduled Generators are paid (and therefore appropriately compensated) in these instances rather than incorrectly being charged.

Appendix 1 contains the Rule Change Proposal and gives complete information about:

- the proposed amendments to the Market Rules;
- relevant references to clauses of the Market Rules and any proposed specific amendments to those clauses; and
- the submitter's description of how the proposed amendments would allow the Market Rules to better address the Wholesale Market Objectives



DECISION TO PROGRESS THE RULE CHANGE

The IMO has decided to progress the Rule Change Proposal on the basis of its preliminary assessment that the proposal is consistent with the Wholesale Market Objectives and is required to address a manifest error in the Market Rules.

RULE CHANGE PROCESS

The IMO has decided to subject the Rule Change Proposal to the Fast Track Rule Change Process described in section 2.6 of the Market Rules, on the grounds that it satisfies the criteria in clause 2.5.9(b) of the Market Rules.

Clause 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.

The IMO considers that this Rule Change Proposal corrects a manifest error in the Amending Rules for RC_2011_10. Under the current drafting, Market Generators would be required to pay Constrained On Compensation and Constrained Off Compensation for their Non-Scheduled Generators, instead of being paid these amounts. This is both contrary to the intent of these payments (to compensate Market Generators for potential losses resulting from Out Of Merit dispatch) and inconsistent with the treatment of Scheduled Generators and the VEBP. As such, the IMO considers that this proposal should be progressed using the Fast Track Rule Change Process, on the grounds that it satisfies the criteria in clause 2.5.9 (b).

TIMELINE

The projected timelines for processing this proposal are:



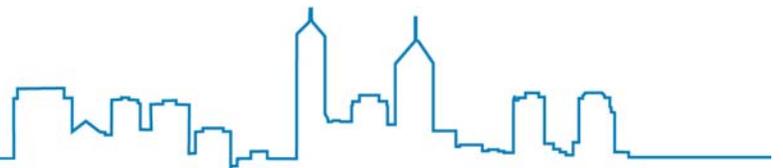


CALL FOR SUBMISSIONS

Any Rule Participant wishing to be consulted regarding this Rule Change Proposal is invited to notify the IMO within 5 Business Days of this notice being published (**11 June 2012**). The consultation period is 10 Business Days from the publication date of this Rule Change Notice. Submissions must be delivered to the IMO by 5.00pm on **Monday 18 June 2012**.

Submissions should be made by email to market.development@imowa.com.au using the submission form available on the IMO website: <http://www.imowa.com.au/rule-changes>. Submissions may also be sent to the IMO by fax or post, addressed to:

Independent Market Operator
Attn: Group Manager, Market Development
PO Box 7096
Cloisters Square, Perth, WA 6850
Fax: (08) 9254 4399



Wholesale Electricity Market Rule Change Proposal Form

Change Proposal No: RC_2012_08
Received date: 1 June 2012

Change requested by:

Name:	Suzanne Frame
Phone:	(08) 9254 4304
Fax:	(08) 9254 4399
Email:	suzanne.frame@imowa.com.au
Organisation:	IMO
Address:	Level 3, Governor Stirling Tower, 197 St Georges Terrace Perth
Date submitted:	1 June 2012
Urgency:	3-high, Fast Track Rule Change Process
Change Proposal title:	Constrained On and Off Prices for Non-Scheduled Generators
Market Rules affected:	Clauses 6.17.3A and 6.17.4A

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 that must be submitted to the Independent Market Operator.

This Change Proposal can be posted, faxed or emailed to:

Independent Market Operator
Attn: Group Manager, Market Development
PO Box 7096
Cloisters Square, Perth, WA 6850
Fax: (08) 9254 4339
Email: market.development@imowa.com.au

The Independent Market Operator will assess the proposal and, within 5 Business Days of receiving this Rule Change Proposal form, will notify you whether the Rule Change Proposal will be further progressed.

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:

Background

The Rule Change Proposal: Competitive Balancing and Load Following Market (RC_2011_10) will introduce a new Balancing Market that enables greater participation of Independent Power Producers (IPPs) in the provision of Balancing. The Amending Rules resulting from RC_2011_10 were approved by the Minister on 20 March 2012 and the new Balancing Market is scheduled to commence on 1 July 2012.

Under the new market arrangements, System Management will usually dispatch Balancing Facilities in accordance with a Balancing Merit Order (BMO), determined for each Trading Interval from Balancing Submissions received from both Verve Energy and IPPs. The BMO will also be used to determine the Balancing Price for a Trading Interval. Any variation between the actual output of a Market Generator in a Trading Interval and its Net Contract Position will be settled at the Balancing Price.

In some situations, however, a Balancing Facility may be dispatched “out of merit” and generate either more or less energy than would be expected given the Balancing Price. Assuming settlement at the Balancing Price, a Balancing Facility that generates more than expected (is “constrained on”) may be paid less than its bid price for some of the energy it generates. Similarly, a Facility that generates less than expected (is “constrained off”) may be required to pay the Balancing Price for energy that it offered to generate at a lower price.

Under the Amending Rules from RC_2011_10 Market Generators will receive a payment of Constrained On Compensation or Constrained Off Compensation in these cases, to ensure appropriate compensation is received. Constrained On Compensation will be paid to ensure that a Market Generator receives at least its bid price for any energy it generates, while Constrained Off Compensation will be paid to ensure that a Market Generator does not pay the Balancing Market more for a quantity of energy than the price at which it offered to generate that energy.

Constrained On Compensation and Constrained Off Compensation will be applicable to all Balancing Facilities, including Scheduled Generators, Non-Scheduled Generators and the Verve Energy Balancing Portfolio (VEBP). New sections 6.16A and (for the VEBP) 6.16B describe the calculation of Out Of Merit Generation quantities, while the various quantities and prices used to calculate Constrained On Compensation and Constrained Off Compensation are outlined in new clauses 6.17.3 – 6.17.5A. These values will be used in the calculation of the balancing settlement amount for each Market Participant under clause 9.8.1.

Issue

A Constrained On Compensation Price is intended to reflect the amount by which the Market Generator's loss factor adjusted bid price for the relevant quantity of energy exceeds the Balancing Price, i.e. bid price – Balancing Price. For example, if the Balancing Price is \$80/MWh and a Balancing Facility is constrained on and generates an additional 10 MWh that it offered at \$100/MWh in its Balancing Submission, then it should receive $(\$100 - \$80) * 10 = \$200$ as Constrained On Compensation. This price calculation is correctly reflected in clauses 6.17.3(b) and 6.17.3(c)(ii) (for Scheduled Generators) and clauses 6.17.5(b) and 6.17.5(c)(ii) for the VEBP. However, in clause 6.17.3A(b) (for Non-Scheduled Generators) the order of the two prices has been incorrectly reversed, so that the bid price is being subtracted from the Balancing Price. In the example above, this would result in the Market Generator being charged \$200 rather than paid \$200.

Clause 6.17.4A(b), which prescribes the Constrained Off Price calculation for a Non-Scheduled Generator, contains a similar error. Constrained Off Prices are intended to reflect the amount by which the Balancing Price exceeded the price at which the Market Generator offered to generate the relevant energy quantity, i.e. Balancing Price – bid price. While clauses 6.17.4(b), 6.17.4(c)(ii), 6.17.5A(b) and 6.17.5A(c)(ii) correctly reflect this calculation for Scheduled Generators and the VEBP, clause 6.17.4A(b) shows the calculation as bid price – Balancing Price, resulting in a charge to the Market Generator instead of a payment.

Proposal

The IMO proposes to correct the order of the terms in the subtractions in new clauses 6.17.3A(b) and 6.17.4A(b), so that Constrained On Compensation Prices and Constrained Off Compensation Prices for Non-Scheduled Generators are calculated as positive amounts. The proposed amendments will bring these calculations into alignment with the corresponding calculations for Scheduled Generators and the VEBP and will ensure that Non-Scheduled Generators are paid (and therefore appropriately compensated) in these instances rather than incorrectly being charged.

2. Explain the reason for the degree of urgency:

The IMO considers that this Rule Change Proposal corrects a manifest error in the Amending Rules for RC_2011_10. Under the current drafting, Market Generators would be required to pay Constrained On Compensation and Constrained Off Compensation for their Non-Scheduled Generators, instead of being paid these amounts. This is both contrary to the intent of these payments (to compensate Market Generators for potential losses resulting from Out Of Merit dispatch) and inconsistent with the treatment of Scheduled Generators and the VEBP. As such, the IMO considers that this proposal should be progressed using the Fast Track Rule Change Process, on the grounds that it satisfies the criteria in clause 2.5.9(b) of the Market Rules.

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

The following clause is contained in the Amending Rules resulting from RC_2011_10:

- 6.17.3A Subject to clause 6.17.5B, for any Balancing Facility that is a Non-Scheduled Generator, in a Trading Interval:
- (a) ConQ1 equals the Upwards Out of Merit Generation, in MWh, for the Trading Interval, which for settlement purposes under Chapter 9 the IMO must Loss Factor adjust; and
 - (b) ConP1 equals ~~the Balancing Price for that Trading Interval less the Loss Factor Adjusted Price in the Balancing Price-Quantity Pair associated with the Balancing Facility for that Trading Interval~~ less the Balancing Price for that Trading Interval.
- 6.17.4A. Subject to clause 6.17.5B, for any Balancing Facility that is a Non-Scheduled Generator, in a Trading Interval:
- (a) CoffQ1 equals the Downwards Out of Merit Generation, in MWh, for that Trading Interval, which for settlement purposes under Chapter 9 the IMO must Loss Factor adjust; and

- (b) ~~CoffP1 equals the Loss Factor Adjusted Price in the Balancing Price-Quantity Pair associated with the Balancing Facility less the Balancing Price for that Trading Interval less the Loss Factor Adjusted Price in the Balancing Price-Quantity Pair associated with the Balancing Facility for that Trading Interval.~~
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4. Describe how the proposed Market Rule change would allow the Market Rules to better address the Wholesale Market Objectives:

The IMO considers that the proposed amendments correct a manifest error in the Amending Rules for RC_2011_10 and are consistent with the Wholesale Market Objectives.

Further, the IMO considers that once the Amending Rules from RC_2011_10 commence the proposed amendments will allow the Market Rules to better address Wholesale Market Objective (c). The changes will avoid discrimination against Non-Scheduled Generators that are dispatched Out Of Merit, by ensuring that they are paid Constrained On Compensation and Constrained Off Compensation in the same way as other Balancing Facilities.

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

Costs:

The IMO has not identified any additional IT or other costs for this Rule Change Proposal.

Benefits:

- Correction of a manifest error in the Amending Rules for RC_2011_10.
 - Consistent treatment of Non-Scheduled Generators and other Balancing Facilities.
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