

Rule Change Notice

Alignment of Settlement Tolerances and Tolerance Ranges (RC_2012_16)

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

Date Submitted: 16 November 2012

Submitter: Allan Dawson, IMO

The Proposal

The IMO has developed the Rule Change Proposal: Alignment of Settlement Tolerances and Tolerance Ranges to address the perverse situation where Scheduled Generators are able to generate at a level outside their Settlement Tolerance yet remain within their Tolerance Range and thus receive a greater level of Constrained On/Off Compensation than would otherwise apply. The IMO considers that this outcome is inconsistent with the design of Constrained On and Constrained Off Compensation (as implemented under RC_2011_10). As a result, the IMO has proposed to amend the Settlement Tolerance for a Scheduled Generator to be equal to the MWh equivalent of the Tolerance Range or Facility Tolerance Range (as applicable) associated with the relevant Facility.

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 that interested parties should be given an opportunity to provide submissions as part of the 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 criterion 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

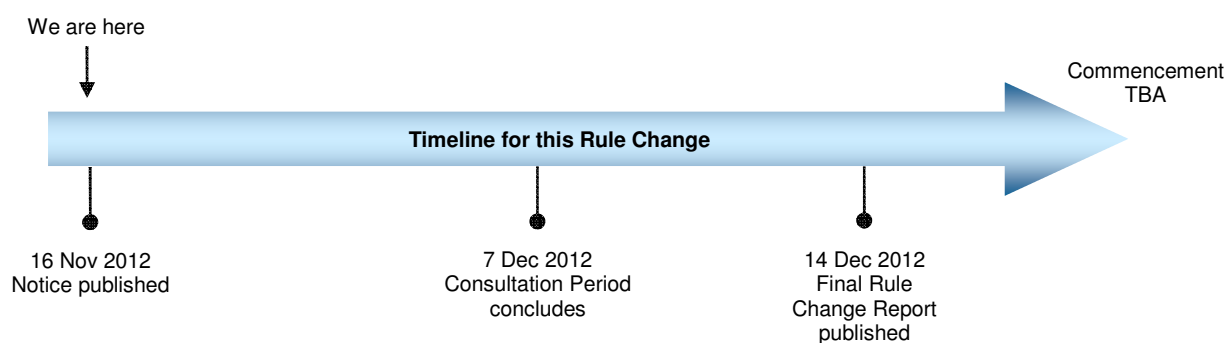
(c) is urgently required and is essential for the safe, effective and reliable operation of the market or the SWIS.

One of the underlying tenets of the Balancing Market design was that a Facility that failed to follow its Dispatch Instruction would not be eligible for Constrained On/Off Compensation. The rationale for creating Tolerance Ranges was to acknowledge that Scheduled Generators could not, in reality, ramp up or down in a perfect linear fashion and would therefore not be penalised for minor deviations from their Resource Plan. However, by relaxing the boundary for compliance with Dispatch Instructions and allowing Scheduled Generators minor deviations within Tolerance Ranges or Facility Tolerances Ranges an unintended consequence is that a Facility may receive Constrained On/Off Compensation as a result of not fully complying with its Dispatch Instructions.

The IMO considers that the generation of these payments constitutes a manifest error in the Market Rules. As such, the IMO considers that the proposed amendments satisfy the criterion 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 (**23 November 2012**).

The consultation period is 15 Business Days from the publication date of this Rule Change Notice. Submissions must be delivered to the IMO by **5.00pm on Friday, 7 December 2012**.



INDEPENDENT
MARKET
OPERATOR

The IMO prefers to receive submissions by email (using the submission form available on the Market Web Site: <http://www.imowa.com.au/rule-changes>) to: market.development@imowa.com.au

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



APPENDIX 1
Wholesale Electricity Market
Rule Change Proposal

Change Proposal No: RC_2012_16
Received date: 16 November 2012

Change requested by:

Name:	Allan Dawson
Phone:	9254 4333
Fax:	9254 4399
Email:	allan.dawson@imowa.com.au
Organisation:	IMO
Address:	Level 17, 197 St Georges Terrace, Perth WA 6000
Date submitted:	16 November 2012
Urgency:	High – Fast Track Rule Change Process
Change Proposal title:	Alignment of Settlement Tolerances and Tolerance Ranges
Market Rules affected:	Clauses 2.13.6L (new) and 6.17.9.

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

Since the Wholesale Electricity Market (WEM) began System Management, with the knowledge of Rule Participants, has applied a tolerance range to the deviations of Scheduled Generators from their Resource Plans before reporting alleged breaches to the IMO. The adoption of a tolerance range was a practical solution to the overly stringent obligations contained within the Wholesale Electricity Market Rules (Market Rules), particularly with respect to the reporting obligations associated with clauses 7.10.1 and 7.10.5. At an operational level, adherence to the Market Rules would have required System Management to report every deviation from a Resource Plan to the IMO.

Given the identified impracticalities of the reporting obligations, System Management put forward a Rule Change Proposal: The use of tolerance levels by System Management (RC_2009_22)¹ which introduced a process by which System Management could set a generic Tolerance Range and, where appropriate, specific Facility Tolerance Ranges (refer to clauses 2.13.6A - 2.13.6K). The Tolerance Range applied to System Management's reporting obligations under clause 7.10.1 and System Management's operational obligations to request a Market Generator to move back to its Resource Plan under clause 7.10.5². Neither of the changes introduced by RC_2009_22 amended a Market Generator's

¹ A copy of the Final Report for RC_2009_22 is available on the following webpage: http://www.imowa.com.au/RC_2009_22

² Note that the tolerances also applied to System Management's obligation to report Forced Outages.

requirements to adhere to the Market Rules, including the requirement to adhere to Resource Plans.

At the December 2011 meeting of the Rules Development Implementation Working Group (RDIWG), concerns were raised about the ability of some Facilities to comply with Dispatch Instructions under the new Balancing Market arrangements, and in particular Facilities with less flexible ramping capabilities. Given this consideration, the IMO proposed during the further consultation period for the Rule Change Proposal: Competitive Balancing and Load Following Market (RC_2011_10) that the application of the Tolerance Range or Facility Tolerance Range, as applicable, be extended to apply to the output of a Market Generator³. The extended application of a Tolerance Range or Facility Tolerance Range enabled a Facility to ramp to a target level in increments, approximating a linear ramp rate over the instructed range. The IMO's decision to incorporate these changes was intended to provide some flexibility to "on average" meet instructed MW target, MWh requirements and ramp rate levels over an interval. Under the Amending Rules which commenced under RC_2011_10 a Market Participant that purposefully biases operation within the Tolerance Range or Facility Tolerance Range (for example, to manipulate Constrained On or Constrained Off Compensation or balancing outcomes) would be subject to a potential compliance action.

Issue

Under the current Market Rules it is possible for a Scheduled Generator to generate away from the requested output amount (as notified via a Dispatch Instruction) by an amount (in MWh) which is greater than the Settlement Tolerance but less than the applicable Tolerance Range or Facility Tolerance Range. This provides for a Scheduled Generator to be:

- compliant with the Dispatch Instruction issued by System Management via the application of the criteria outlined in clause 7.10.2; and
- either:
 - receive Constrained On Compensation for the additional generation above the Settlement Tolerance; or
 - receive Constrained Off Compensation for the reduced generation levels below the Settlement Tolerance (potentially at the Minimum STEM Price of \$1000/MWh).

Under the new Balancing Market design, a Facility that is dispatched by System Management above (or below) its Net Contract Position will be paid (or will pay) the Balancing Price for the quantity involved (as part of normal settlement of Balancing amounts). Constrained On or Constrained Off Compensation may also be required to compensate for differences between the Balancing Price and the price of offers of bid tranches dispatched by System Management. Note that "Out of Merit" dispatch quantities may be the result of a system security situation or due to approximations that must be made in formulating Dispatch Instructions to follow expected trends in dispatch intervals and in calculating half hourly Balancing Prices ex-post.

The IMO notes that a Scheduled Generator can benefit from the current identified issue by generating at a level outside its Settlement Tolerance range yet remain within its applicable

³ For further details refer to the further consultation document on the following webpage: http://www.imowa.com.au/RC_2011_10

Tolerance Range and thus receive a greater level of Constrained On or Constrained Off Compensation than would otherwise apply. The IMO considers that this outcome is inconsistent with the design of Constrained On and Constrained Off Compensation (as implemented under RC_2011_10).

Proposal

The IMO proposes to amend the Settlement Tolerance (clause 6.17.9) for a Scheduled Generator to be equal to the MWh equivalent of the Tolerance Range or Facility Tolerance Range (as applicable) associated with the relevant Facility.

System Management has defined the initial Tolerance Range under clause 2.13.6D as a formula, which takes a Scheduled Generator's Nameplate Capacity and normal ramp rate (as recorded in Standing Data) as input. To allow for potential future variations to this approach, and to ensure consistency between the Tolerance Ranges applied by System Management over time and the quantities used for settlement, the IMO proposes the addition of a new clause 2.16.6L. This clause will require System Management to explicitly provide to the IMO a single MW tolerance range value for each Scheduled Generator or Dispatchable Load (provided that an applicable Tolerance Range or Facility Tolerance Range has been determined for that Facility).

The IMO will work with System Management to develop the appropriate changes to the IMS Interface Market Procedure to support the new interface.

2. Explain the reason for the degree of urgency:

One of the underlying tenets of the Balancing Market design was that a Facility that failed to follow its Dispatch Instruction would not be eligible for Constrained On/Off Compensation. The rationale for creating Tolerance Ranges was to acknowledge that Scheduled Generators could not, in reality, ramp up or down in a perfect linear fashion and would therefore not be penalised for minor deviations from their Resource Plan. However, by relaxing the boundary for compliance with Dispatch Instructions and allowing Scheduled Generators minor deviations within Tolerance Ranges or Facility Tolerances Ranges an unintended consequence is that a Facility may receive Constrained On/Off Compensation as a result of not fully complying with its Dispatch Instructions.

The IMO considers that the generation of these payments constitutes a manifest error in the Market Rules. As such, the IMO considers that this Rule Change Proposal should be progressed using the Fast Track Rule Change Process, on the basis that it satisfies the criterion 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)

2.13.6L. System Management must, in the time, form and manner prescribed in the IMS Interface Market Procedure provide to the IMO, for each Scheduled Generator or Dispatchable Load for which an applicable Tolerance Range or Facility Tolerance Range has been determined, the absolute value of the maximum MW boundary of the applicable Tolerance Range or Facility Tolerance Range.

6.17.9. The IMO must other than for Facilities in the Verve Energy Balancing Portfolio, determine a Settlement Tolerance for each Scheduled Generator, Non-Scheduled Generator and Dispatchable Load, where this Settlement Tolerance is equal to:

(a) for a Scheduled Generator or Dispatchable Load for which an applicable Tolerance Range or Facility Tolerance Range has been determined by System Management, the applicable value provided by System Management to the IMO for the Facility under clause 2.13.6L, divided by two to be expressed as MWh; or

(b) for Facilities for which no applicable Tolerance Range or Facility Tolerance Range has been determined by System Management, the lesser of:

~~(a)~~i. 3 MWh; and

~~(b)~~ii. the greater of:

~~i~~1. 0.5 MWh; and

~~ii~~2. 3% of the Facility's:

~~i~~i. Sent Out Capacity in the case of a Non-Scheduled Generator and a Scheduled Generator; or

~~ii~~ii. nominated maximum consumption quantity in the case of a Dispatchable Load,

as set out in Standing Data divided by two to be expressed as MWh.

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 Market Rules and are consistent with the Wholesale Market Objectives. Further, the IMO considers that the proposed amendments will allow the Market Rules to better Wholesale Market Objective (a) by promoting economically efficient outcomes with regards to addressing the perverse situation evident where a Scheduled Generator can receive Constrained On/Off Compensation for deviating from its Dispatch Instructions. The IMO also considers that the proposed amendments will improve economic efficiency by ensuring that significant and unnecessary costs are not borne by the market.

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

Costs:

Some IT costs will be incurred by System Management and the IMO, to develop the required data interface and amend the IMO's settlement system. The IMO will work with System Management to provide stakeholders with an estimate of the cost of these changes during the consultation period for the Rule Change Proposal.

Benefits:

- Correction of a manifest error in the Market Rules.
- Elimination of spurious payments to Scheduled Generators.