
Wholesale Electricity Market Rule Change Proposal Submission Form

RC_2012_25 Constrained On/Off Compensation Removal Where a Facility Is Non-Compliant With Dispatch Instructions

Submitted by

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Submission

- Please provide your views on the proposal, including any objections or suggested revisions.**

Background

In the new Balancing Market generators receive payments for being constrained on or off out of the merit order. The Market Rules give the Independent Market Operator (IMO) the ability to reduce output to zero for generators that do not follow the Dispatch Instruction from System Management. The effect of reducing the output to zero is that the generator does not receive its constrained on/off payment in settlement.

The current procedures and systems in place between System Management and the IMO does not always allow for identifying breaches of Dispatch Instructions in time for the first settlement run. It may therefore be necessary to rely on the settlement adjustment process to rectify any over / under compensation as a result of generators not following a Dispatch Instruction.

The settlement adjustment process currently only allows for adjustments to be made to:

- Facilitate the outcome of notices of disagreement,

2. Reflect revised metering data, and
3. Reflect revised market, system operator and regulator fee rates.

The current settlement adjustment process therefore does not cater for corrections to the constrained payments due to a generator not following its Dispatch Instructions.

Change Proposal

The IMO submitted Rule Change Proposal RC_2012_25 “Constrained On/Off Compensation Removal Where a Facility Is Non-Compliant With Dispatch Instructions” on 21 January 2013.

The IMO proposed to make changes to clauses 9.16.3, 9.16.3A and 9.19.1 to specifically allow for settlement variations due to determinations around whether a Market Participant did not follow a Dispatch Instruction. The effect of the proposed changes would be that the IMO will have an ability to cancel any constrained on/off payments due to non compliance with a Dispatch Instruction both in the initial settlement run (as is the case currently) and in any subsequent settlement adjustment runs.

The IMO submitted the Rule Change Proposal to the Fast Track Rule Change Process on the basis that it is necessary to correct a manifest error in the Market Rules.

Perth Energy’s Views

Perth Energy supports the IMO’s rule change proposal.

The ability to correct for errors made in initial settlement runs is an important part of most markets. Not being able to correct for obvious and significant errors could lead to some Market Participants being significantly advantaged at the expense of others. Such a scenario is neither efficient nor equitable and if uncorrected could lead to significant distortions in the market. It could also lead to Market Participants losing confidence in the market with investors decreasing their activity as a result.

Perth Energy therefore fully supports the proposed changes to specifically allow the IMO to use settlement adjustment runs to reverse constrained on/off payments that have been made despite a generator not following a Dispatch Instruction. This change is likely to increase the confidence of Market Participants that they will be treated fairly and equitably in regard to constrained on/off payments.

Perth Energy notes that it is quite possible that some incorrect payments for being constrained on/off may have already been made since the start of the new Balancing Market on 1 July 2012. Although Perth Energy does not normally support changes that have a retrospective effect, on this occasion, due to the obvious manifest error nature of the issue that is being addressed, it may be appropriate to use the settlement adjustment mechanism to correct constrained on/off payment errors going back to 1 July 2012 if this Rule Change Proposal is implemented.

It is Perth Energy’s understanding that the last possible adjustment to the Non-STEM settlement, which includes constrained on/off payments would take place 11 months after the Trading Month that the settlement relates to. It is our understanding that the last month available for making changes to the July 2012 Trading Month would therefore be June 2013.

Perth Energy would like to understand whether the IMO intends to go back to July 2012 to resettle all payments relating to constrained on/off payments that were made despite the Market Participant not following a Dispatch Instruction.

Perth Energy also agrees with the IMO's assessment that the current inability to use the settlement adjustment process to address incorrect payments for being constrained on/off represents a manifest error in the Market Rules. It is therefore appropriate to progress the Rule Change using the Fast Track Rule Change Process.

2. Please provide an assessment whether the change will better facilitate the achievement of the Market Objectives.

Perth Energy considers the proposed changes would better facilitate achievement of Market Objectives (a) and (b)¹. Rectifying the manifest error of not being able to correct erroneous constrained on/off payments in settlement adjustment runs will provide Market Participants with more confidence that they will be treated fairly and equitably in the WEM. Ensuring that Market Participants are correctly compensated is likely to have a positive impact on the economic efficiency of the WEM as costs and benefits are allocated reflecting the value of the services provided. Perth Energy also considers the proposed changes are likely to positively impact investor confidence and would therefore have potentially positive flow on effects on competition both from existing and potential new entrants.

Perth Energy has not identified any impacts on the other Market Objectives.

3. Please indicate if the proposed change will have any implications for your organisation (for example changes to your IT or business systems) and any costs involved in implementing these changes.

Perth Energy has not identified any impacts on our IT or other business systems.

4. Please indicate the time required for your organisation to implement the change, should it be accepted as proposed.

Perth Energy will not require any lead time to implement the proposed changes.

¹ 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.