



Independent Market Operator

**Final Rule Change Report:
Provision of Information to the
IMO**

Ref: RC_2009_33

Date: 19 March 2010

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Independent Market Operator

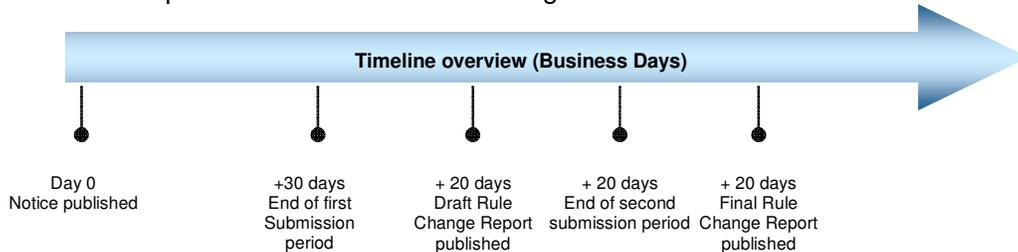
Level 3, Governor Stirling Tower
197 St George's Terrace, Perth WA 6000
PO Box 7096, Cloisters Square, Perth WA 6850
Tel. (08) 9254 4300
Fax. (08) 9254 4399
Email: imo@imowa.com.au
Website: www.imowa.com.au

1. INTRODUCTION

On 20 October 2009, System Management submitted a Rule Change Proposal regarding the amendment of clauses 3.21.7, 7.13.1A and 9.20.5 of the Wholesale Electricity Market Rules (Market Rules).

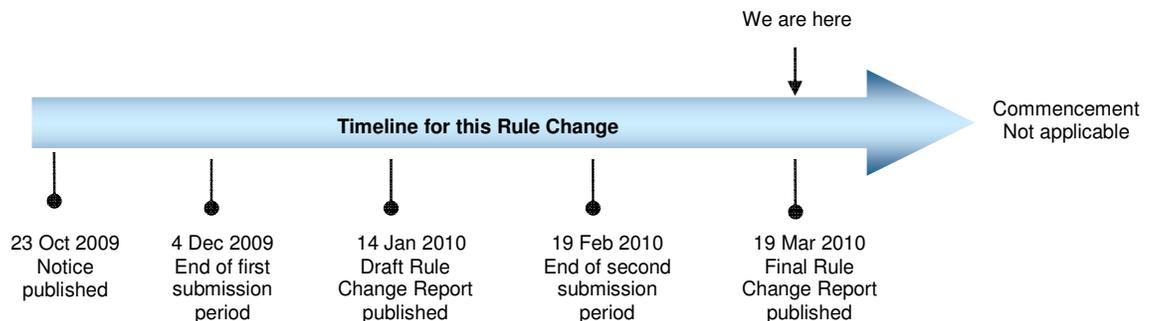
This proposal is being processed using the Standard Rule Change Process, described in section 2.7 of the Market Rules.

The standard process adheres to the following timelines:



As allowed by clause 2.5.10 of the Market Rules, the Independent Market Operator (IMO) decided to extend the deadline for publication of the Draft Rule Change Report. A notice of this extension was published on the IMO website on 23 October 2009, in accordance with clause 2.5.12.

The key dates in processing this Rule Change Proposal, as amended in the extension notices, are:



The IMO's final decision is to reject the Rule Change Proposal. The detailed reasons for the IMO's decision are set out in section 7 of this report.

In making its final decision on the Rule Change Proposal, the IMO has taken into account:

- the Wholesale Market Objectives;
- the practicality and cost of implementing the proposal;
- the views of the Market Advisory Committee (MAC); and
- the submissions received.

All documents related to this Rule Change Proposal can be found on the IMO website: http://www.imowa.com.au/RC_2009_33.html

2. THE RULE CHANGE PROPOSAL

2.1 Submission Details

Name:	Alistair Butcher
Phone:	9427 5787
Fax:	9427 4228
Email:	Alistair.Butcher@westernpower.com.au
Organisation:	System Management
Address:	
Date submitted:	20 October 2009
Urgency:	Standard Rule Change Process
Change Proposal title:	Provision of Information to the IMO
Market Rule(s) affected:	Clause 3.21.7, 7.13.1A and 9.20.5

2.2 Summary Details of the Proposal

System Management's Rule Change Proposal sought to allow for Forced Outage information (provided under clause 3.21.7) to be deemed to be accurate and in compliance with the Market Rules in the event that a Notice of Disagreement is raised.

Full details of the proposal are contained in Appendix 1 of this report.

2.3 The Proposal and the Wholesale Market Objectives

In its proposal System Management noted that it considered that the proposed changes would promote the economically efficient, safe and reliable production and supply of electricity in the South West interconnected system (SWIS). In particular, System Management contended that the proposed Amending Rules will result in an increase in certainty pertaining to System Management's and Market Participants' obligations. This would remove administrative costs associated with uncertainty and legal interpretation.

2.4 The Amending Rules Proposed by the IMO

The amendments to the Market Rules originally proposed by System Management are available in the Rule Change Notice and in Appendix 2 of this report.

2.5 The IMO's Initial Assessment of the Proposal

Following the IMO's initial assessment the IMO decided to proceed with the proposal on the basis that Rule Participants should be given the opportunity to make submissions.

3. FIRST SUBMISSION PERIOD

The first submission period for this Rule Change Proposal was between 26 October 2009 and 4 December 2009.

3.1 Submissions received

The IMO received submissions from Landfill Gas & Power (LGP), Perth Energy, and Synergy. The details of the submissions are summarised below, with the full text available on the IMO website.

3.1.1 Submission from Landfill Gas & Power

LGP supported the proposal on the grounds that it clarifies the required timing for lodging Forced Outage information and thereby removes the potential for disruption to the settlement process.

LGP supported the view that the proposed Amending Rules will clarify System Management's and Market Participants' obligations and thereby reduce administrative costs associated with uncertainty and legal interpretation. LGP also considered that the proposal would increase the accuracy and reliability of the earlier settlement runs, thereby avoiding subsequent corrections.

3.1.2 Submission from Perth Energy

Perth Energy queried whether there have been any examples to date of a Market Participant seeking to amend Forced Outage information originally provided under clause 3.21.7 by submitting a Notice of Disagreement.

Perth Energy did not consider the current wording of the Market Rules to be ambiguous, but does not object to the proposed amendments if they would remove any doubt that may exist regarding Market Participants' obligations.

Perth Energy queried the proposed amended clause 3.21.7(b), which makes reference to clause 7.13.14. Perth Energy believes this should be a reference to clause 7.13.1A.

Perth Energy agreed that removing potential costs relating to administration and legal interpretation would have a positive impact on Market Objective (a). Perth Energy did not consider that the change proposal would affect the achievement of the other Market Objectives.

3.1.3 Submission from Synergy

Synergy supported the proposal on the grounds that greater transparency around the retaining and reporting timeframes will remove the current risk that System Management be required to retain and report Forced Outages well after gate closure.

Synergy agreed that the proposed changes will be consistent with the Market Objectives, in particular with Market Objective (d).

3.2 The IMO's assessment of First Submission period responses

The submissions received during the first submission period generally supported the intent of the Rule Change Proposal.

Perth Energy asked whether there have been any examples of Market Participants seeking to amend outage information through a Notice of Disagreement. The IMO knows of at least one case of a Notice of Disagreement being lodged with respect to an outage that was reported to System Management after the 15 calendar day deadline stipulated in clause 3.21.7.

Perth Energy also queried whether the reference in the proposed Amending Rules to clause 7.13.14 should be to clause 7.13.1A. System Management confirmed that this is the case.

3.3 The IMO's Response to System Management's Rule Change Proposal

The IMO's response to System Management's Rule Change Proposal, as contained in the Draft Rule Change Report, is attached in Appendix 3 of this paper.

3.4 Public Forums and Workshops

No public forums or workshops were held in relation to this Rule Change Proposal.

4. THE IMO'S DRAFT ASSESSMENT

The IMO's assessment, as contained in its Draft Rule Change Report, can be viewed on the IMO's website.

5. THE IMO'S DRAFT DECISION

Based on the matters set out in this report, the IMO's draft decision, in accordance with clause 2.7.7(f), was to reject the Rule Change Proposal.

5.1 Reasons for the Decision

In summary, the IMO considered that there is a risk that the proposed Amending Rules will undermine the purpose of the Notice of Disagreement and settlement adjustment processes, in turn adversely affecting the integrity of the settlement process.

Additionally, the IMO considered that:

- there is no need to create a final gate-closure for information provided under clause 7.13.1A, as one already exists;
- the proposed amended Market Rules may yield perverse outcomes in certain circumstances; and
- it is not appropriate for the IMO's settlement process to rely on information provided to it for compliance purposes.

6. SECOND SUBMISSION PERIOD

Following the publication of the Draft Rule Change Report on the IMO website, the second submission period was between 15 January 2010 and 19 February 2010.

6.1 Submissions received

The IMO received a submission LGP. This submission is summarised below with the full submission available on the IMO website.

6.1.2 Submission from Landfill Gas & Power

LGP notes that having originally supported the proposed rule change, it accepts in good faith the IMO's decision not to proceed with it. Although it was noted that ideally IMO and System Management would have arrived at a compromise solution rather than rejection of the proposal.

LGP also consider that the integrity of the settlement process would be improved by requiring known-errors to be corrected in time for the first settlement run, especially

where a party that has committed a rule breach via late delivery of data stands to benefit from submission of the data.

6.2 The IMO's assessment of the second submission period response

Negotiated solutions

The IMO notes LGP's comment that it would have been ideal if IMO and System Management arrived at a compromise solution rather than rejection of the proposal.

The IMO endeavors to negotiate outcomes, where possible, during the Rule Change Process. However, occasionally it is necessary for the IMO to make an independent decision based on its analysis of the proposal.

Integrity of settlement process

LGP notes that the integrity of the settlement process would be improved by requiring known-errors to be corrected in time for the first settlement run.

The IMO agrees with this, and notes that the Rule Change Proposal could have led to perverse outcomes in certain circumstances. According to clause 3.21.7, as proposed to be amended by the Rule Change Proposal, the information originally submitted by the Market Participant would be deemed to be accurate. System Management would be unable to revise it, even though it may know that the information is not correct.

The IMO considers that more accurate and timely settlement outcomes are likely to occur if System Management is able to correct known errors in data used for settlement.

7. THE IMO'S FINAL ASSESSMENT

In preparing its Final Rule Change Report, the IMO must assess the Rule Change Proposal in light of clauses 2.4.2 and 2.4.3 of the Market Rules.

Market Rule 2.4.2 outlines that 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*".

Additionally, clause 2.4.3 states, when deciding whether to make Amending Rules, the IMO must have regard to the following:

- Any applicable policy direction from the Minister regarding the development of the market;
- The practicality and cost of implementing the proposal;
- The views expressed in submissions and by the MAC; and
- Any technical studies that the IMO considers necessary to assist in assessing the Rule Change Proposal.

The IMO notes that there has not been any applicable policy direction from the Minister in respect of this Rule Change nor has it commissioned a technical review in respect of this Rule Change Proposal.

The IMO's assessment is outlined in the following sections.

7.1 Market Objectives

The IMO considers that the Market Rules, if amended according to this Rule Change Proposal, may not be consistent with the Wholesale Market Objectives.

Wholesale Market Objective	Consistent with objective
(a) to promote the economically efficient, safe and reliable production and supply of electricity and electricity related services in the South West interconnected system	Yes
(b) to encourage competition among generators and retailers in the South West interconnected system, including by facilitating efficient entry of new competitors	No
(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	Yes
(d) to minimise the long-term cost of electricity supplied to customers from the South West interconnected system	No
(e) to encourage the taking of measures to manage the amount of electricity used and when it is used	Yes

The IMO considers that this Rule Change Proposal potentially reduces Market Participants' ability to obtain rectification of errors in Settlement Statements via the Notice of Disagreement process. It therefore increases the risk that Market Participants' receipts and payments will not correctly reflect their entitlements and obligations. This risk may be a disincentive for competitors to enter the market (Wholesale Market Objective (b)), and may constitute a cost that will ultimately be passed on to consumers (Wholesale Market Objective (d)).

7.2 Practicality and cost of implementation

The proposed changes would not require any change to the Wholesale Electricity Market Systems operated by the IMO, nor to any of the systems operated by System Management.

7.3 Views expressed in submissions

The submissions received during the first submission period generally supported the intent of the Rule Change Proposal.

The submission received in the second submission period accepted the IMO's decision not to proceed with it.

7.4 Views expressed by the Market Advisory Committee

The MAC discussed the proposal at both the 14 October 2009 and 12 November 2009 meetings. An overview of the MAC discussions is presented below. Further details are available in the MAC meeting minutes available on the IMO website: <http://www.imowa.com.au/MAC>

October 2009 MAC meeting

System Management first presented its proposal at the 14 October 2009 meeting. System Management noted that its system do not allow for Market Participants to

provide Forced Outage information after the 15 days (outlined in clause 3.21.7 of the Market Rules) have elapsed. System Management stated that it wanted to ensure that the Notice of Disagreement process reflected that the information held when the 15 days expire is deemed to be the final accurate data available.

System Management also noted that, if it is provided information two months after the event, it is not able to investigate whether the information is accurate. Consequently, after 15 calendar days, it can not provide a revised value that is known to be more accurate than the value originally submitted.

The IMO queried whether there is potential for information provided late not to be taken into account during investigations following a Notice of Disagreement. In response System Management noted that this would be the case as the information would not have been provided in accordance with the Market Rules.

Alinta noted that this rule change is about protecting System Management regarding what is accurate data that complies with the Market Rules.

The MAC agreed that System Management and the IMO would discuss whether the proposal would adversely affect the Notice of Disagreement process.

November 2009 MAC meeting

At the 12 November 2009 meeting, the IMO noted that it had identified a number of issues with the proposal, and had discussed these with System Management. The two parties would continue to work through these issues during the formal rule change process.

The MAC noted the Rule Change Proposal.

8. THE IMO'S FINAL DECISION

Based on the matters set out in this report, the IMO's final decision, in accordance with clause 2.7.8 (e), is to reject the Rule Change Proposal.

8.1 Reasons for the Decision

In summary, the IMO considers that there is a risk that the proposed Amending Rules will undermine the purpose of the Notice of Disagreement and settlement adjustment processes, in turn adversely affecting the integrity of the settlement process.

Additionally, the IMO considers that:

- there is no need to create a final gate-closure for information provided under clause 7.13.1A, as one already exists;
- the proposed amended Market Rules may yield perverse outcomes in certain circumstances; and
- it is not appropriate for the IMO's settlement process to rely on information provided to it for compliance purposes.

9. AMENDING RULES

The IMO's final decision is to not amend the Market Rules.

APPENDIX 1: FULL DETAILS OF THE PROPOSAL

System Management's Rule Change Proposal noted that RC_2007_15 (Provision of information to the IMO) sought to resolve issues with the provision of Forced Outage information to System Management. This was by extending the timeframe by which full and final information must be provided by Market Participants. In particular System Management noted that, clause 3.21.7, which created a deadline by which full and final Forced Outage information must be provided to the IMO also became the deadline whereby a Rule Participant is in breach of clause 3.21.4. System Management noted that the obligation to provide Forced Outages to System Management (which carries a Category C civil penalty).

System Management noted that this Rule Change was also intended to create a final gate-closure for this information for the purposes of the Notice of Disagreement process. If a deadline does not exist, System Management considers that its obligations are unclear and may have to revisit outage notifications years after the event.

System Management outlined the following scenario:

1. Market Participant notifies System Management of unavailability on Trading Day.
2. Market Participant does not provide any final information to System Management by the timeframe identified in clause 3.21.7 (ie 15 calendar days).
3. System Management alleges a breach of Market Rules 3.21.4 and 3.21.7 against the Participant.
4. The first Non-STEM Settlement is completed without the information pertaining to the Forced Outage (2 months after the relevant Trading Day).
5. The Market Participant provides revised Forced Outage information to System Management for the relevant Trading Day.
6. The Market Participant issues a Notice of Disagreement regarding the Non-STEM Settlement.
7. The IMO requires System Management to investigate the accuracy of the Forced Outage information provided by System Management to the IMO for the relevant Trading Day, in accordance with clause 9.20.5 (c).

System Management's proposal noted that clause 9.20.5 (c), as currently drafted states that the IMO must require the Metering Data Agent or System Management (as applicable) to investigate the accuracy of the item and to provide a response by the time specified under paragraph (b):

- i. reporting on the actions taken to investigate the accuracy of the item; and
- ii. if applicable, a revised value for the item, which may be a revised value, that the Metering Data Agent or System Management (as applicable) considers to be in compliance with these Market Rules and accurate.

In System Management's opinion and the intention of RC_2007_15, clause 3.21.7 imposed a final deadline for the provision of information to System Management. However, there is a risk that clause 9.20.5(c) may be interpreted as requiring System Management to retain and report forced outages lodged at any time after the 15 calendar day gate closure imposed in clause 3.21.7. This would also allow a Market Participant, through a Notice of Disagreement, to evade the obligations surrounding the timely provision of Forced Outages.

System Management's Rule Change Proposal sought to remove this potential.

APPENDIX 2: ORIGINALLY PROPOSED AMENDING RULES

The amendments to the Market Rules originally proposed by System Management, as contained in the Rule Change Notice, are as follows (~~deleted words~~, added words):

- 3.21.7 A Market Participant or Network Operator must provide full and final details of the relevant Forced Outage or Consequential Outage as follows:
- (a) ~~n~~Notwithstanding the requirements of clause 3.21.4 that a relevant Market Participant or Network Operator must inform System Management of a Forced Outage or Consequential Outage as soon as practical, a Market Participant or Network Operator must provide full and final details of the relevant Planned Outage, Forced Outage or Consequential Outage to System Management no later than fifteen calendar days following the Trading Day;
 - (b) for the purposes clause 9.20.5(c) ii., in regard to information provided by System Management to the IMO in accordance with clause 7.13.14, the details provided by a Market Participant to System Management in accordance with clause 3.21.7(a) will be deemed to be:
 - i. in compliance with the Market Rules;
 - ii. accurate; and
 - (c) nothing in clause 3.21.7(b) limits the functions of the IMO under these Market Rules, including to revise a value for an item included in a Notice of Disagreement.
- 7.13.1A System Management must provide the IMO with the following data for a Trading Day by noon on the fifteenth Business Day following the day on which the Trading Day ends:
- (a) the MWh quantity of non-compliance by the Electricity Generation Corporation by Trading Interval; and
 - (b) the schedule of all Planned Outages, Forced Outages and Consequential Outages provided to System Management in accordance with clause 3.21.7 relating to each Trading Interval in the Trading Day by Market Participant and Facility;
- 9.20.5 If a Notice of Disagreement relates to information provided to the IMO by a Metering Data Agent or System Management then as soon as practical, but not later than five Business Days after the IMO confirms receipt of the Notice of Disagreement, the IMO must:
- ...
- (c) subject to clause 3.21.7(b), require the Metering Data Agent or System Management (as applicable) to investigate the accuracy of the item, and to provide a response by the time specified under paragraph (b) by:
 - i. reporting on the actions taken to investigate the accuracy of the item; and
 - ii. if applicable, providing a revised value for the item, which may be a revised value, that the Metering Data Agent or System Management (as applicable) considers to be in compliance with these Market Rules and accurate.

APPENDIX 3: IMO RESPONSE TO SYSTEM MANAGEMENT'S RULE CHANGE PROPOSAL

Information Gate-Closure

System Management's Rule Change Proposal notes that this amendment is required to create a final gate-closure for the provision of information under clause 7.13.1A from System Management to the IMO. Without such a closure, System Management may have to revisit outage notifications years after the event. However, the IMO considers that a gate-closure, under clause 9.16.3, already exists in the Market Rules.

Clause 9.16.3 provides for an Adjustment Process by which Settlement Statements issued in the preceding 12 months may be reviewed and (if necessary) corrected. After 12 months, data may not be revised, and the IMO considers that this amounts to a final gate-closure.

This Rule Change Proposal may therefore be seen as (among other things) a proposal to change the timeframe of the Adjustment Process (under clause 7.13.1A) from 12 months to 15 Business Days. The IMO considers that no case has been made for changing the timeframe for the outage information in question, while leaving it unchanged for all other information used in the settlement process. The IMO considers that such a change would be contrary to the purpose of the Adjustment Process.

Perverse Outcomes

The IMO considers that the proposed Amending Rules may yield perverse outcomes in certain circumstances. For example, suppose that a generating facility suffers a Forced Outage, but the relevant Market Participant does not declare the outage to System Management within 15 Business Days due to an oversight. System Management may be aware that an outage occurred, but the data that it provides to the IMO under clause 7.13.1A states that no outage was declared. On receiving its Settlement Statement, the Market Participant realises its error and lodges a Notice of Disagreement. The IMO asks System Management to investigate.

According to clause 3.21.7, as proposed to be amended by this Rule Change Proposal, the information originally submitted by the Market Participant would be deemed to be accurate. System Management would be unable to revise it, even though it may know that the information is not correct.

The IMO considers that more accurate and timely settlement outcomes are likely to occur if System Management is able to correct known errors in data used for settlement.

Separation of Functions and Processes

The IMO has discussed the scenario described above with System Management, who noted that the Market Participant's failure to declare a Forced Outage constitutes a breach of the Market Rules that the IMO would want to investigate. System Management considers that the IMO would therefore already be aware that the information originally submitted by the Market Participant is incorrect (via the compliance processes), without needing to be advised by System Management.

The IMO's notes that there is no mechanism currently in the Market Rules that provides for outage information provided to the IMO for compliance purposes to be applied to the settlements process.

The IMO contends that the Market was designed to allow for two separate processes (in respect of this Rule Change Proposal), that is:

- the Market Rules recognise the importance of achieving the most accurate settlement possible and provide for this in the Adjustment Process and Notice of Disagreement Process; and
- the Market Rules manage and incentivise Market Participant compliance.

The IMO considers that, by design, these two processes are separate within the Market Rules, which it manages by having two separate and distinct teams. The IMO has not been provided with sufficient evidence that connecting its compliance process with its settlement mechanism would be beneficial, and therefore considers that the Notice of Disagreement process should not be reliant on potential information provided to it for some other purpose.

This is for the following reasons:

- The compliance and settlement process are separate. The Market Rules set out a process for the IMO to follow when a breach of the Market Rules is alleged. Part of that process involves ascertaining whether the facts as alleged are correct. The process involves allowing all parties the opportunity to make written submissions, which can take some time. Such an investigation could take longer than both the Adjustment Process and Notice of Disagreement process. Accordingly it is possible that the time required to carry out a proper investigation could mean that information supplied for one purpose was not available for another purpose; and
- There are operational risks to the IMO associated with relying on information from compliance investigations to update the information used in settlements. In particular, if there were a failure by System Management to meet its compliance obligations there would be likely settlement implications for the Market Participants. Further, it may be entirely plausible for System Management to meet its compliance obligations with out providing all the necessary information for settlements.

Consequently, there is a risk that, even if some of the relevant information is known to the IMO from a compliance perspective, that information may not be complete or may not be confirmed as accurate in time for it to be taken into account within the settlement Notice of Disagreement and Adjustment Process. Additionally the IMO considers that it would be inappropriate for Forced Outage information to be used for settlement purposes until an investigation was complete.

The IMO contends that System Management is the party best suited to correcting any known errors in Forced Outage data used for settlements. System Management already provides the IMO with information on Forced Outages and in this instance the IMO contends that this should remain the case.

Clause 9.20.5

System Management's proposal noted that:

“clause 9.20.5 (c), as currently drafted states that the IMO must require the Metering Data Agent or System Management (as applicable) to investigate the accuracy of the item and to provide a response by the time specified under paragraph (b):

- i. reporting on the actions taken to investigate the accuracy of the item; and
- ii. if applicable, a revised value for the item, which may be a revised value, that the Metering Data Agent or System Management (as applicable) considers to be in compliance with these Market Rules and accurate.

In System Management's opinion and the intention of RC_2007_15, clause 3.21.7 imposed a final deadline for the provision of information to System Management. However, there is a risk that clause 9.20.5(c) may be interpreted as requiring System Management to retain and report forced outages lodged at any time after the 15 calendar day gate closure imposed in clause 3.21.7."

[underlining added]

Pursuant to subclause 9.20.5(c)(i) of the Market Rules, System Management must investigate the accuracy of the relevant item and provide the IMO with a response reporting on the actions taken to investigate the accuracy. If System Management has insufficient information on which to make a determination as to accuracy, it may request information from the Market Participant to enable it to make its assessment.

Subclause 9.20.5(c)(ii) merely provides that *if applicable*, System Management must provide a revised value for the item which *may* be a revised value that it *considers to be* in compliance with the Market Rules and accurate.

The IMO considers that the requirement that the revised value be in compliance with the Market Rules is a reference to the manner of calculation of the value rather than the manner in which the value was provided.

In any event, System Management is required to investigate the accuracy and in doing so may request information from a Market Participant. Accordingly, any revised value provided to System management in this manner, while likely to be provided outside the 15 Business Day time period in clause 3.21.7, will be provided in accordance with System Management's investigation and therefore in compliance with the Market Rules.

The IMO considers that the intention of subclause 9.20.5(c) that information obtained by System Management in investigating the accuracy of an item may be used in determining a revised value for the item. Additionally, the IMO considers that System Management may provide the IMO with a revised value for an item that was advised to it by a Market participant outside of the 15 Business day time period specified in clause 3.21.7.

The IMO agrees that clause 3.21.7 was intended to provide a deadline by which information should be provided to System Management by Market Participants, but contends that, despite this deadline, the Notice of Disagreement process allows System Management to investigate and provide IMO of further corrections to settlement data in extraordinary circumstances. The IMO contends that this arrangement should remain in place.