



Draft Rule Change Report
Title: Consequential Outage – Relief
from capacity refund and unauthorised
deviation penalties

Ref: RC_2010_23
Standard Rule Change Process

Date: 18 November 2010

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1. INTRODUCTION

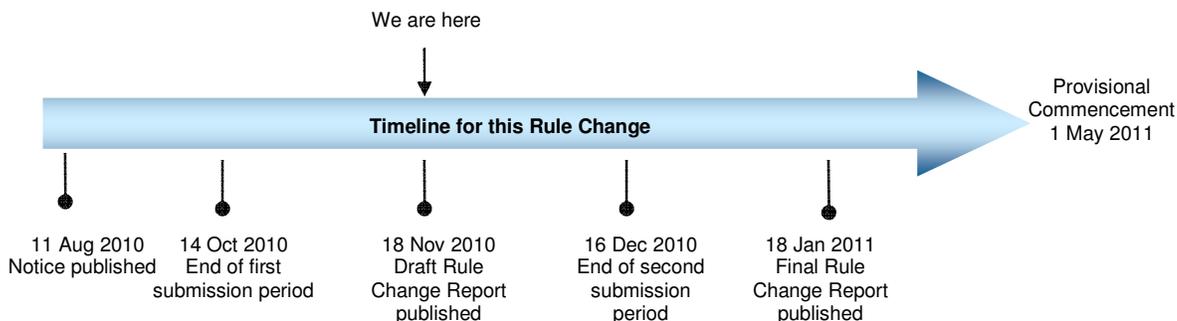
On 3 August 2010 Alinta submitted a Rule Change Proposal regarding amendments to clauses 6.15.1 and 6.15.2 of the Wholesale Electricity Market Rules (Market Rules).

The IMO originally decided to process this Rule Change Proposal using the Fast Track Rule Change Process. However, in accordance with clause 2.5.10 of the Market Rules the IMO extended the timeframe for initial consultation. In accordance with clause 2.5.11 the IMO also reclassified the Rule Change Proposal as no longer being subject to the Fast Track Rule Change Process, as the total extension period exceeded 15 Business Days. The Rule Change Proposal is now being processed using the Standard Rule Change Process, described in section 2.7 of the Market Rules. Further details of the extensions are available in section 4 of this report and on the IMO website.

The standard process adheres to the following timelines:



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



Please note, the commencement date is provisional and may be subject to change in the Final Rule Change Report.

The draft decision of the IMO Board is to accept the Rule Change Proposal as modified following the first submission period. The detailed reasons for the decision are set out in section 5 of this report.

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

- the Wholesale Market Objectives;
- the practicality and cost of implementing the proposal, particularly given the uncertainty about the impact of the proposed amendments on the incidences and magnitude of ex-post Consequential Outage submissions;
- the frequency and financial impact of Consequential Outages reported to date;

- 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_2010_23.

2 CALL FOR SECOND ROUND SUBMISSIONS

The IMO invites interested stakeholders to make submissions on this Draft Rule Change Report. The submission period is 20 Business Days from the publication date of this report. Submissions must be delivered to the IMO by 5.00pm, **Thursday 16 December 2010**.

The IMO prefers to receive submissions by email (using the submission form available on the IMO website: <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: General Manager Development
PO Box 7096
Cloisters Square, PERTH, WA 6850
Fax: (08) 9254 4399

3. THE RULE CHANGE PROPOSAL

3.1 Submission Details

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Date submitted:	3 August 2010
Urgency:	<i>Fast Track Rule Change – Correction of manifest error</i>
Change Proposal title:	Consequential Outage – Relief from capacity refund and unauthorised deviation penalties
Market Rules affected:	Clauses 6.15.1 and 6.15.2

3.2 Summary details of the Proposal

In its Rule Change Proposal, Alinta proposed to amend the Market Rules to ensure that a Market Participant who suffers a Consequential Outage is relieved from capacity refunds under clause 4.26 and from penalties for unauthorised deviations from its Dispatch Schedule under clause 6.17. Alinta proposed that Facilities suffering a Consequential Outage should have their Dispatch Schedules set to be equal to their Metered Schedules.

The full details of the Rule Change Proposal are available in Appendix 1 of this report.

3.3 The Proposal and the Wholesale Market Objectives

Alinta considered that the failure of the Market Rules to adjust Dispatch Schedules to account for Consequential Outages represents a manifest error, which has the potential for significant adverse financial implications and must therefore be addressed as soon as possible ahead of the summer peak period.

As a result, Alinta considered that the proposed amendments are necessary to support Market Objectives (a) and (b), as they:

- promote the economically efficient production and supply of electricity and electricity related services in the South West interconnected system; and
- encourage competition among generators in the South West interconnected system, including by facilitating efficient entry of new competitors.

Further, Alinta submitted that the proposed amendments eliminate a non-controllable risk by reducing the exposure of Market Participants to capacity refunds or penalties for unauthorised deviations in the event of a Consequential Outage, which is likely to promote Market Objective (d).

Alinta also considered that the proposed amendments are consistent with Market Objective (c) and are not inconsistent with Market Objective (e).

3.4 Amending Rules proposed by Alinta

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

3.5 The IMO's Initial Assessment of the Proposal

The IMO decided to proceed with the proposal on the basis of the IMO's preliminary assessment which indicated that the proposal was consistent with the Wholesale Market Objectives.

The IMO decided to process the Rule Change Proposal using the Fast Track Rule Change Process, described in section 2.6 of the Market Rules, 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.*

The IMO noted that clause 4.12.6(b) of the Market Rules requires the IMO to reduce the Reserve Capacity Obligation Quantity (RCOQ) for a Facility if it is notified ex-ante of a Consequential Outage. This prevents the Market Participant from being penalised for failing to offer the affected capacity into the market. However, under the current Market Rules no adjustment is made to account for Consequential Outages that are identified ex-post, leaving the Market Participant exposed to capacity refunds and deviation penalties. As such, the IMO considered that the proposed amendments fulfil clause 2.5.9(b), in that they are required to correct a manifest error, and therefore may be fast-tracked.

4. FIRST CONSULTATION/SUBMISSION PERIOD

In accordance with the Fast Track Rule Change Process, an invitation for all Rule Participants to contact the IMO, should they wish to be consulted on the Rule Change, was published on the IMO website on 11 August 2010, together with the Rule Change Notice.

The original consultation period for the Rule Change Proposal was between 12 August 2010 and 1 September 2010. Interested stakeholders were requested to inform the IMO if they wished to be consulted on the Rule Change Proposal by 18 August 2010. The IMO did not receive any requests to be consulted on the Rule Change Proposal during this time.

The IMO consulted with Alinta and System Management regarding the Rule Change Proposal were held with Alinta and System Management. Sections 4.1 and 4.2 provide a summary of these consultations. Due to the complexity of the issues associated with the proposal, and in particular with the issues relating to partial Consequential Outages and governance, the consultation period was twice extended, on 30 August 2010 (first extension) and 21 September 2010 (second extension). As the second extension resulted in the total extension period exceeding 15 Business Days the IMO, in accordance with clause 2.5.11 of the Market Rules, reclassified the Rule Change Proposal as no longer being subject to the Fast Track Rule Change Process (and therefore being subject to the Standard Rule Change Process).

Under the Standard Rule Change Process, the first submission period closed on 14 October 2010. On 11 November 2010 the IMO extended the publication date for the Draft Rule Change Report until 18 November 2010, to allow the IMO sufficient time to complete its internal Board review process for the Rule Change Proposal.

Further details of the extensions and the reclassification of the Rule Change Proposal are available on the IMO website.

4.1 Impact of partial Consequential Outages

Following the publication of the Rule Change Notice, the IMO raised an issue with Alinta about the impact of its Rule Change Proposal on a Facility suffering a partial Consequential Outage. The drafting of the Rule Change Proposal would protect a Facility that suffered a partial Consequential Outage from any deviation penalties, even where the outage did not affect the Facility's ability to meet its Resource Plan.

Alinta agreed with the IMO that where a Facility suffers a Consequential Outage that affects only part of its capacity, it should be protected from deviation penalties only to the extent that the Facility's capacity was reduced as a direct result of the Consequential Outage. In its correspondence with the IMO, Alinta considered that this approach was preferable even though the incidence of partial Consequential Outages may be low.

In an effort to address this issue, the IMO developed an alternative methodology to determine the Dispatch Schedules for a Scheduled Generator or Dispatchable Load suffering a Consequential Outage ("alternative methodology"). The alternative methodology limited any adjustment of Dispatch Schedules to reflect the actual extent of the Consequential Outage on the Facility's ability to meet its Resource Plan. Of necessity, the alternative methodology was much more complex than the methodology suggested by Alinta in its Rule Change Proposal. In particular, the alternative methodology:

- required either System Management or a Market Participant (via System Management) to provide the IMO with estimates of the maximum MWh quantities

that could have been supplied or consumed by each Facility in each affected Trading Interval, taking into account the Consequential Outage;

- raised issues around how the estimated maximums could be determined and monitored, given the complexities inherent in the network; and
- required more extensive IT and procedural changes than the methodology proposed by Alinta.

4.2 Consultation with System Management

In accordance with clause 2.6.1 of the Market Rules, the IMO notified System Management on 18 August 2010 of its intention to consult directly with it concerning the Rule Change Proposal. A series of discussions were held with representatives from System Management on a range of topics, including:

- the types of circumstances under which Consequential Outages are recorded;
- details of how System Management is notified of Consequential Outages and how it determines a Consequential Outage under clause 3.21.2;
- typical causes of partial Consequential Outages, and their frequency relative to full Consequential Outages;
- options for and issues around the provision of maximum supply and consumption MWh estimates for a Facility suffering a Consequential Outage;
- issues around the reporting of Consequential Outages for Dispatchable Loads;
- monitoring, governance and potential gaming issues;
- whether Consequential Outages might currently be under-reported, given the absence of any financial incentive to report these outages ex-post; and
- the potential impacts of the originally proposed methodology and the alternative methodology on System Management's IT systems and processes.

In recognition of the complexity of the alternative methodology, its likely cost implications and the possibility that Consequential Outages are at present under-reported, the IMO sought an estimate from System Management of the frequency of unreported Consequential Outages and the relative frequency of partial Consequential Outages. Due to the complexities involved System Management has not been able to provide an estimate of these values, although it has advised that in the event of this Rule Change Proposal being progressed it expects that the number of reported Consequential Outages may increase.

4.2.1 Strengthened governance arrangements in relation to Consequential Outage submissions

System Management agreed with Alinta that the current treatment of Consequential Outages under the Market Rules creates an impost on recipients of Capacity Payments that cannot be managed or ameliorated by them.

System Management considered that, under the proposed amendments (using either the original or the alternative methodology), there is potential for Market Participants to "game" the arrangements by either claiming a Forced Outage as a Consequential Outage, or else exaggerating the impact of the Consequential Outage on the Facility's ability to meet its obligations.

This is because, in some cases, establishing a link of causality between events or circumstances on the SWIS and a Market Participant's submissions to System Management in relation to a particular outage event may be difficult or impossible.

In such circumstances, the use of system simulations may assist to resolve some of this uncertainty. However, depending on the extent to which the frequency of Consequential Outages increases, commissioning such studies into every event may be costly. Further, it is likely that such studies may not be able to be completed in time for data to be submitted to the IMO for use in its settlement processes.

System Management suggested several additional clauses may be necessary to strengthen governance and establish increased accountability regarding a Market Participant's outage submissions to System Management.

System Management suggested an approach that might include the following elements.

- A Market Participant would be required to provide information, certified by a representative with appropriate authority, affirming that the Consequential Outage had occurred and providing relevant details to the best of its knowledge of the events which resulted in the Consequential Outage.
- Subject to the receipt of a letter as described above and in the absence of information that would be grounds for System Management to disallow the application, the outage details would be provided to the IMO as part of its normal reporting procedures (i.e. 15 days after the Trading Day).
- At regular intervals (to be determined, but probably annually), System Management would commission a modelling study into the Consequential Outages (or a subset of these) that were recorded during the previous period. The intent of the review would be to investigate, by way of system simulation, the circumstances surrounding some or all of the outages and to determine the validity of the claims made by Market Participants. This information would then be provided to the market for its consideration and assessment.

System Management noted that the cost of a modelling study would not be covered under its existing budget, and so the provision of funding to undertake the studies would need to be discussed with the ERA.

4.3 Publication of addendum to the Rule Change Notice

The IMO published an addendum to the Rule Change Notice on 1 October 2010, to assist Rule Participants in their consideration of the Rule Change Proposal. The addendum contained drafting to support the alternative methodology, under which a Facility suffering a Consequential Outage is protected from deviation penalties only to the extent that the Facility's capacity was reduced as a direct result of the Consequential Outage. The addendum also outlined System Management's suggestions about governance arrangements for Consequential Outage submissions. The addendum is available on the IMO website.

While the addendum has no formal standing under the Market Rules, the IMO invited Rule Participants to specifically submit on the information contained in the addendum during the first submission period.

4.4 IMO analysis

To support its consideration of the Rule Change Proposal, and in particular of the costs and benefits of adopting the alternative methodology, the IMO sought IT cost estimates for the implementation of both methodologies, and undertook an analysis of historical Consequential Outages to assess the financial impact of the associated deviation penalties on Market Participants. The outcomes of this work are summarised below.

4.4.1 Comparison of IT costs

The estimated IMO IT costs to implement the two proposed methodologies are:

- \$18,589 (AUD) for the methodology proposed by Alinta; and
- \$47,248 (AUD) for the alternative methodology.

Both estimates include costs for testing and auditing.

System Management expects that it would not need to change its IT systems to support Alinta's methodology. However, system changes would be required under the alternative methodology, to capture the maximum supply and consumption MWh estimates and to forward them to the IMO. Due to the preliminary nature of the analysis a precise cost estimate was not sought from System Management, but it is expected that the extent of the changes required to System Management's systems would be similar to that required for the IMO's systems.

4.4.2 Analysis of Consequential Outages

The IMO reviewed the history of Consequential Outages reported since the market commenced. Since only one Consequential Outage has ever been reported "ex-ante" (in 2006), the focus of the analysis was on Consequential Outages reported "ex-post". The following points were noted.

- During the period from market commencement until July 2010 inclusive, Consequential Outages were reported for a total of 2017 Facility/Trading Intervals. Of these, 1254 were reported for Independent Power Producer (IPP) Facilities, while 763 were reported for Verve Energy Facilities (which are not subject to the penalties targeted by Alinta's proposal).
- The IMO analysed the settlement details for Consequential Outages reported during the period from April 2009 to June 2010 inclusive. Excluding Verve Energy Facilities and Intermittent Generators, Consequential Outages were reported for 31 Facility/Trading Intervals during this period, representing 5 distinct outage "events". From the data it appears that one of these events is possibly a Forced Outage reported incorrectly, as it consists of a single Trading Interval embedded in a period of Forced Outages with the same outage level. As the financial impact of this outage is small (approximately \$140 in Downward Deviation Administrative Price (DDAP) payments) there is no significant impact on the analysis in either case.
- One further IPP outage event was reported in July 2010, but the relevant settlement data was not available at the time of the analysis.
- For the 5 events of interest, the total DDAP payments were \$18,909 and total Capacity Cost Refunds (Net STEM Shortfall) were \$19,845, totalling \$38,754 for the 15 month period. About \$26,000 of this total was attributable to one event, which also involved a Planned Outage.
- Of the 31 Facility/Trading Intervals:
 - for 14 the outage quantity indicates a partial outage;
 - for 11 the outage quantity indicates a full outage; and
 - for 6 both Consequential and Partial Outages were reported, which together cover the full capacity of the Facility.
- The IMO calculated approximate maximum supply MWh estimates for the 14 partial outage intervals, based on the reported outage quantity (an exact conversion was not possible as the outage quantities are reported on a sent out

basis at 41 degrees Celsius, ignoring any outage impact above RCOQ). In 9 of the 14 intervals the original and alternative methodologies produced the same Dispatch Schedule quantity. For the remaining 5 intervals the Dispatch Schedules calculated under the alternative methodology exceeded the Metered Schedules. However, all of these intervals fell within extended outage events, during which the reported outage quantities varied from interval to interval. It appears possible that the variations reflect difficulties in estimating the outage impact accurately, rather than deviations not related to the outage.

- In none of the 31 intervals did the Metered Scheduled exceed the Dispatch Schedule.

In summary, it appears from the historical data that while Consequential Outages are comparatively rare events, when they do occur the financial impact on a Market Participant can be significant. The IMO considers that these impacts are the result of a manifest error in the Market Rules, given the clear intention shown in clause 4.12.6(b) to avoid such impacts.

The historical data does not provide any convincing examples of where a Facility would have received an inappropriate level of relief from deviation penalties under Alinta's Dispatch Schedule calculation methodology. Based on this finding and the low volume of Consequential Outages reported, the IMO does not consider that the higher costs associated with using the alternative methodology are justified at this time.

However, the IMO notes that the number of events reviewed is small, and it is possible that reports of Consequential Outages, and in particular of partial Consequential Outages, may increase if the Rule Change Proposal is progressed.

4.4.3 Conclusions

The outcomes of the IMO's investigations were presented at the October 2010 MAC meeting. Following a discussion of various options for the progression of the Rule Change Proposal, the MAC gave its support for the IMO to:

- progress the Rule Change Proposal using the original methodology proposed by Alinta;
- update the drafting of the proposed amendments to include a requirement for an authorised officer of the Market Participant to affirm a Consequential Outage and provide relevant details of the events that resulted in the outage; and
- update the drafting of the proposed amendments to include a requirement for an annual review of Consequential Outages by System Management.

Further details of the MAC discussion are available in section 5.3 of this report and on the IMO website.

The IMO agrees with the MAC's suggestions to adopt the original methodology and to require affirmation of a Consequential Outage from an authorised officer of the company. However, the IMO considers it would be premature to include formal requirements for a periodic review of Consequential Outages in the proposed amendments. The impact of the proposed amendments on the reporting of Consequential Outages is currently uncertain. This uncertainty makes it difficult to define an appropriate scope or frequency for a periodic review, and there is a danger of implementing a review process that is either ineffectual or else poses an unnecessary cost to participants.

Instead, the IMO proposes to conduct, with the assistance of System Management, a review of Consequential Outage submissions six months after the commencement of the

Rule Change Proposal. The results of the review would be presented to the MAC for consideration. The review would consider:

- any changes to the frequency of Consequential Outage submissions;
- the frequency of partial Consequential Outage submissions, and in particular of cases where a Market Participant received a level of relief inconsistent with the extent of the outage;
- financial impacts of the changes;
- any monitoring, governance or gaming issues identified; and
- recommendations for additional amendments to the Market Rules (e.g. periodic reviews, changes to governance arrangements and, if necessary, implementation of the alternative methodology).

4.5 Submissions received

The IMO received submissions from Griffin Energy, Landfill Gas & Power (LGP), Perth Energy and Synergy. Synergy provided an initial submission prior to the publication of the IMO's addendum to the Rule Change Notice and a further submission after the publication of the addendum and the October 2010 MAC meeting. The full text of the submissions received is available on the IMO website.

In summary, all the submissions received express support for the Rule Change Proposal. The submissions from Griffin Energy and Perth Energy, received prior to the publication of the IMO's addendum, support the amendments as proposed by Alinta. LGP and Synergy support the alternative methodology and its implementation through the drafting in the IMO's addendum. LGP also supports a simplified monitoring protocol, where the extent of a partial Consequential Outage is certified by an Authorised Officer of the affected party and the incidence of Consequential Outages is assessed periodically by System Management and the IMO.

In its submission, Griffin Energy queries the impact of Consequential Outages on Capacity Cost Refunds. Griffin Energy also raises concerns about the treatment of force majeure under the Market Rules and the impact of the Reserve Capacity Mechanism on different generation types.

Griffin Energy, Perth Energy and Synergy agree that the changes would better facilitate the achievement of Market Objectives (a), (b) and (d). LGP considers that the changes are consistent with the Market Objectives and in particular support Market Objective (a).

4.6 The IMO's response to submissions received during the First Submission Period

The IMO's response to each of the points raised during the first submission period is presented in the table over the page:

Public Domain

Clause/Issue	Submitter	Comment/Change Requested	IMO's response
Impact of Consequential Outages on Capacity Refunds	Griffin Energy	Griffin believes that the current Market Rules levy unauthorised deviations onto a Market Participant in the event of Consequential Outage, but are less certain on the treatment of Capacity Refunds.	Under the current Market Rules, if a Scheduled Generator suffers a Consequential Outage and its Metered Schedule falls below its Dispatch Schedule then the Market Participant may incur Capacity Cost Refunds. (In particular, this is due to the impact on the "Max(0, B(p,d,t) – C(p,d,t))" term in the Net STEM Shortfall calculation in clause 4.26.2.) The extent of the refund will depend on a range of factors, including RCOQ and the performance of other Facilities belonging to the Market Participant.
Force majeure	Griffin Energy	Griffin also believes this proposal brings into question the treatment of force majeure in the Market Rules. Force majeure is universally recognised in a legal context, yet the effects of a force majeure event are specifically omitted from the Market Rules.	The scope of the Rule Change Proposal does not cover force majeure in general, but only inconsistencies in the treatment of Consequential Outages. These outages are different from other force majeure events, in that a Facility is effectively prevented from meeting its obligations to the SWIS by the SWIS itself. The Market Rules make this distinction clear by the separate definitions of Forced and Consequential Outages.
Discrimination under the Capacity Refund Mechanism	Griffin Energy	Griffin Energy considers that an Open Cycle Gas Turbine (OCGT) is penalised less by Capacity Cost Refunds due to a force majeure event than a bilaterally contracted generator. Griffin Energy believes that this is an example of how the current Capacity Refund Mechanism, designed for OCGT peaking facilities, imparts adverse and discriminatory costs against other generation types.	Griffin Energy's concerns around discrimination in the Capacity Refund Mechanism do not fall within the scope of this Rule Change Proposal. However, it should be noted that a peaker generator derives a greater proportion of its revenue from capacity payments and has less opportunity to recover Capacity Cost Refunds arising from a force majeure event than a baseload generator that sells energy throughout the year.
Support for the alternative methodology	LGP/Synergy	LGP and Synergy express support for the alternative drafting in the IMO's addendum to the Rule Change Notice.	As discussed in section 4.4 of this report, the costs of implementing the alternative methodology cannot be justified at this time, given the low volume of Consequential Outages reported to date and the lack of evidence that the simpler methodology poses a significant risk. The MAC supported this view at its October 2010 meeting. If in future the simpler methodology is found to be having significant adverse impacts then the IMO will pursue amendments to implement the alternative methodology.
Periodic assessment of the incidence of Consequential Outages	LGP	LGP supports the simplified monitoring proposal, whereby the extent of the partial outage is certified by an Authorised Officer of the affected party and the incidence of Consequential Outages is assessed periodically by System Management and the IMO.	The IMO supports the requirement for an Authorised Officer to affirm and provide relevant details of a Consequential Outage. However, as discussed in section 4.4.3 of this report, the IMO considers that amendments to specify periodic review requirements are premature at this stage, and proposes an initial review, six months after the commencement of the Rule Change Proposal, to help determine the appropriate scope and frequency of future monitoring activities.

4.7 Public Forums and Workshops

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

4.8 Additional Amendments to the Amending Rules

Following the first public submission period, the IMO has made some additional changes to the proposed Amending Rules. The additional changes:

- require a Market Participant suffering a Consequential Outage to submit a notice, signed by one of its Authorised Officers, to System Management that affirms the Consequential Outage has occurred and provides relevant details of the events that resulted in the outage;
- require System Management to accept the information provided in these notices in its determination of a Consequential Outage, unless the information is inconsistent with System Management's best knowledge;
- require System Management to retain the notices it receives and submit copies to the IMO every six months and where requested;
- formalise the inclusion of the procedures followed in relation to Forced and Consequential Outages in the Power System Operation Procedure; and
- add a definition for the term "Authorised Officer" to the Glossary.

The additional amendments are contained in Appendix 3 of this paper.

5. THE IMO'S ASSESSMENT

In preparing its Draft 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.

Clause 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 or any technical studies commissioned in respect of this Rule Change Proposal.

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

5.1 Wholesale Market Objectives

The IMO considers that the Market Rules as a whole, if amended, will 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	Yes
(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	Yes
(e) to encourage the taking of measures to manage the amount of electricity used and when it is used	Yes

Further, the IMO considers that the Market Rules if amended would not only be consistent with the Wholesale Market Objectives but also allow the Market Rules to better address Wholesale Market Objectives (a), (b) and (d):

Impact	Wholesale Market Objectives
Allow the Market Rules to better address objective	a, b, d
Consistent with objective	c, e
Inconsistent 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*

The IMO considers that the proposed amendments would promote the economically efficient production and supply of electricity in the SWIS by removing the imposition of financial penalties directly on a Market Generator for deviations over which they have no control. Spreading the costs associated with Consequential Outages across all Market Participants will promote a more economically efficient market outcome than targeting these costs directly to a Market Generator who did not directly cause the cost.

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

Exposure to financial penalties for non-controllable events can represent a disincentive to potential investors. The IMO considers that the proposed amendments act to reduce this disincentive and so encourage the entry of new generators into the market.

(d) *to minimise the long-term cost of electricity supplied to customers from the South West interconnected system*

The IMO considers that the proposed amendments would reduce the size of the risk margin required by generators to cover non-controllable costs. This should reduce the long-term cost of electricity supplied to customers from the SWIS.

5.2 Practicality and Cost of Implementation

Cost:

The proposed amendments will require changes to the Wholesale Electricity Market Systems operated by the IMO. These costs are estimated to be approximately \$19,000. No changes will be required to System Management's IT systems, although some minor changes to System Management's procedures will be necessary.

As discussed in section 4.4.3, the IMO proposes to undertake a review of Consequential Outages six months after the commencement of the Rule Change Proposal. The cost of this review will depend on the number and complexity of Consequential Outages reported in the period, but is expected to be no more than approximately \$50,000 (and considerably less if the current frequency and complexity of submissions continues)..

Practicality:

The IMO has not identified any issues with the practicality of implementing the proposed changes.

5.3 Market Advisory Committee

The MAC discussed the proposal at the 13 October 2010 MAC meeting. An overview of the discussion from the MAC meeting is presented below.

Further details are available in the MAC meeting minutes available on the IMO website: <http://www.imowa.com.au/market-advisory-committee>

October 2010 MAC meeting

The IMO noted the Rule Change Proposal had initially been progressed via the Fast Track Rule Change Process, however due to the complexity of the solutions its timelines had been extended twice and so the proposal had reverted to the Standard Rule Change Process. The IMO noted that it had been working closely with System Management to determine a solution to the following issues:

- impact of partial Consequential Outages – and how to estimate the impact on a Facility's output in these situations;
- limitation of gaming potential; and
- strengthening the governance arrangements in relation to Consequential Outage submissions.

The IMO presented the results of its analysis of the Consequential Outages reported to date. A summary of these results is available in section 4.4.2 of this report.

Mr Phil Kelloway noted that System Management would require adequate time to investigate incidences of Consequential Outages (both full and partial). The IMO noted that it did not want to make any Amending Rules any more complex than required as these events are currently infrequent. The IMO noted that System Management's suggested approach of implementing a simple mechanism with provision for a review at a later date. Mr Kelloway noted that a considerable increase in the amount of reporting could result from RC_2010_23 and that undertaking a review at a later date would uncover this.

Mr Kelloway also noted that appointing an expert in the field to provide oversight of the process would involve a cost to the market. The IMO noted that the proposal is for an

authorised officer of the affected company to sign off on the occurrence and extent of a Consequential Outage.

The IMO noted the two following estimated IT costs:

- Original Alinta proposal: approx \$19,000; and
- Alternative (including partial Consequential Outages): approx \$47,000.

The IMO noted that the alternative proposal would also involve System Management IT costs.

The following additional points were raised:

- Dr Steve Gould noted that if System Management were to require an expert review of each alleged partial Consequential Outage there could be significant costs to the market that would be likely negate the benefits of the proposed changes. The IMO noted that it was for these reasons it considered there would be value in undertaking an annual review. Additionally, Dr Gould noted that it is a criminal offense for an officer of the company to make a false declaration.
- The IMO proposed that the MAC be provided with summary statistics after six months of implementation so that a view on the impacts on market behaviour of the more simplistic change could be considered.
- Mr Andrew Sutherland questioned why the current information provided by Market Participants could not be used to support a partial relief option. In response, the IMO noted that currently a scheduled generator nominates an amount of reduction from its maximum achievable output (similar to if a Planned Outage). System Management then takes the figure and removes any quantity that would fall above the Facility's RCOQ. This amended value is then provided through to the IMO. The IMO as such can not reconstruct the value of capacity provided and so would need a different figure which excludes the adjustment to be provided. The IMO also noted that the current methodology does not consider Dispatchable Loads.
- Mr Shane Cremin suggested that requirements for the provision of information in these instances could be specified in a Market Procedure, including details of the form that a Market Participant would need to fill in. The IMO agreed with this suggestion.
- Mr Sutherland suggested that in these incidences the facility's DSQ could simply be equated to its MSQ. The IMO noted that this was Alinta's original proposal but that it would create a loop hole for an aggregated facility where for example one facility is on Consequential Outage for six months and the other facility is relieved from deviation penalties and capacity refunds ex-post during this time as a result. Dr Gould noted that undertaking a review after 6 months would allow the MAC to consider these situations.

The MAC agreed that it would be appropriate to adopt the simple approach subject to a review being undertaken after implementation to consider the impacts on market behaviour. The following action points were noted:

- The IMO to update the drafting of RC_2010_23 to clarify that an authorised officer of the company would be required to affirm that a Consequential Outage had occurred and provide relevant details to the best of its knowledge of the events which resulted in the Consequential Outage; and
- The IMO to progress the simple solution to the Rule Change Proposal: Consequential Outage- Relief from Capacity Refunds and Unauthorised Deviation Penalties (RC_2010_23), subject to an annual review of

Consequential Outages by System Management being included in the Amending Rules and details of the information requirements being provided in a Market Procedure.

5.4 Views Expressed in Submissions

The IMO received submissions from four Rule Participants during the first submission period. In summary, all of the submissions received supported the Rule Change Proposal. Two submissions expressed support for the alternative methodology presented in the IMO's addendum, under which a Facility suffering a Consequential Outage is protected from deviation penalties only to the extent that the Facility's capacity was reduced as a direct result of the Consequential Outage.

The IMO's response to each of the issues raised in submissions is presented in section 4.6 of this report.

6. THE IMO'S DRAFT DECISION

The IMO's draft decision is to accept the Rule Change Proposal as modified by the amendments outlined in section 4.8 and specified in Appendix 3 of this report.

6.1 Reasons for the decision

The IMO has made its decision on the basis that the Amending Rules:

- will correct a manifest error in the Market Rules, under which Market Participants receive relief from deviation penalties for ex-ante but not ex-post Consequential Outages;
- will allow the Market Rules to better address Wholesale Market Objectives (a), (b) and (d) and are consistent with the remaining Wholesale Market Objectives;
- have the general support of the MAC members; and
- have the general support of submissions received during the first submission period.

There is currently no information available about the incidences and magnitude of ex-post Consequential Outage submissions that may be lodged under the proposed provisions. In making its draft decision, the IMO considers that the Amending Rules are a low cost option that will address the manifest error in the short term, while allowing information to be gathered regarding the materiality of submissions made under the ex-post provisions. Conducting a review of submissions six months after the commencement of the Amending Rules will allow the IMO to assess both the materiality of Consequential Outage claims and the efficacy of the governance arrangements that have been proposed.

Additional detail outlining the analysis behind the IMO's reasons is outlined in section 5 of this Draft Rule Change Report.

7. PROPOSED AMENDING RULES

The IMO proposes to implement the following Amending Rules (added text, ~~deleted text~~):

3.21.4A If a Scheduled Generator or Dispatchable Load suffers a Consequential Outage then the relevant Market Participant must provide System Management with a notice affirming details of the Consequential Outage no

later than 15 calendar days following the Trading Day on which the Consequential Outage commenced. The notice must:

- (a) be signed by an Authorised Officer of the Market Participant;
- (b) affirm that a Consequential Outage has occurred; and
- (c) provide relevant details (to the best of its knowledge) of the events which resulted in the Consequential Outage.

3.21.4B System Management must accept the information provided by a Market Participant under clause 3.21.4A in its determination of a Consequential Outage under clause 3.21.2, unless the information is inconsistent with System Management's best knowledge of the relevant Facility and the outage.

3.21.4C System Management must retain the notices it receives under clause 3.21.4A, and must submit a copy of the notices received to the IMO:

- (a) where requested by the IMO; and
- (b) not less than once every six months.

3.21.8 System Management must document the procedure it follows in determining and reporting Forced Outages and Consequential Outages in the Power System Operation Procedure and System Management, Market Participants and Network Operators must follow that documented Market Procedure when determining and reporting Forced Outages and Consequential Outages.

6.15.1. For a Market Participant other than the Electricity Generation Corporation, the Dispatch Schedule for a Trading Interval for a Scheduled Generator (excluding those to which clauses 3.21.2, 3.21A.14 or 4.25.10 apply) or Dispatchable Load is:

...

6.15.2. The Dispatch Schedule for a Trading Interval for any of the following Facilities equals the corresponding Metered Schedule:

- (a) a Non-Scheduled Generator;
- (aA) a Scheduled Generator to which clauses 3.21.2, 3.21A.14 or 4.25.10 apply;

....

Glossary:

Authorised Officer: In respect of a Market Participant, a Director or Officer as defined in the Corporations Act.

APPENDIX 1: ALINTA'S RULE CHANGE PROPOSAL

In its Rule Change Proposal, Alinta noted that clause 3.21.2 of the Market Rules defines a Consequential Outage as an outage of a Facility or item of equipment on the equipment list described in clause 3.18.2 for which no approval was received by System Management, but which System Management determines:

- was caused by a Forced Outage to another Rule Participant's equipment; and
- would not have occurred if the other Rule Participant's equipment had not suffered a Forced Outage.

Alinta considered it to be a manifest error that where a Facility suffers a Consequential Outage, the Market Rules do not adjust the Facility's Dispatch Schedule for the relevant Trading Intervals to account for that Consequential Outage.

Alinta noted that a Market Participant who suffers a Consequential Outage is not relieved from capacity refunds under clause 4.26 or from penalties for unauthorised deviations from its Dispatch Schedule under clause 6.17, even though these deviations are outside of its control and would not have occurred had another Rule Participant's equipment not suffered a Forced Outage.

That a Market Participant should be exposed to capacity refunds under clause 4.26, with multipliers being as high as 6 in peak periods, due to the Forced Outage of another Participant's Facility or equipment is of particular concern to Alinta.

Alinta noted that in a number of other cases adjustments are made when deviations from a Dispatch Schedule are outside the control of a Market Participant. Specifically, clause 6.15.2 ensures that the Dispatch Schedule for a Trading Interval is set equivalent to the corresponding Metered Schedule for Scheduled Generators that are subject to:

- Commissioning Tests (clause 3.21A); or
- Reserve Capacity Testing (clause 4.25); or
- Dispatch Instructions specifying a minimum MW level (clause 7.7.3(d)(ii)).

APPENDIX 2: PROPOSED AMENDING RULES IN THE RULE CHANGE PROPOSAL

Alinta proposed the following amendments to the Market Rules in its Rule Change Proposal (~~deleted text~~, added text):

6.15.1. For a Market Participant other than the Electricity Generation Corporation, the Dispatch Schedule for a Trading Interval for a Scheduled Generator (excluding those to which clauses 3.21.2, 3.21A.14 or 4.25.10 apply) or Dispatchable Load is:

...

6.15.2. The Dispatch Schedule for a Trading Interval for any of the following Facilities equals the corresponding Metered Schedule:

- (a) a Non-Scheduled Generator;
- (aA) a Scheduled Generator to which clauses 3.21.2, 3.21A.14 or 4.25.10 apply;
- (b) a Non-Dispatchable Load;
- (c) a Curtailable Load;
- (d) an Interruptible Load;
- (e) a Scheduled Generator or Dispatchable Load registered by the Electricity Generation Corporation; and
- (f) a Scheduled Generator or Dispatchable Load registered by a Market Participant (other than the Electricity Generation Corporation) where a Dispatch Instruction of the type described in clause 7.7.3(d)(ii) was issued to the Market Participant in respect of the Facility.

APPENDIX 3: ADDITIONAL AMENDMENTS MADE BY THE IMO FOLLOWING THE FIRST SUBMISSION PERIOD

The IMO has made some amendments to the Amending Rules following the first submission period. These changes are as follows (~~deleted text~~, added text):

- 3.21.4A If a Scheduled Generator or Dispatchable Load suffers a Consequential Outage then the relevant Market Participant must provide System Management with a notice affirming details of the Consequential Outage no later than 15 calendar days following the Trading Day on which the Consequential Outage commenced. The notice must:
- (a) be signed by an Authorised Officer of the Market Participant;
 - (b) affirm that a Consequential Outage has occurred; and
 - (c) provide relevant details (to the best of its knowledge) of the events which resulted in the Consequential Outage.
- 3.21.4B System Management must accept the information provided by a Market Participant under clause 3.21.4A in its determination of a Consequential Outage under clause 3.21.2, unless the information is inconsistent with System Management's best knowledge of the relevant Facility and the outage.
- 3.21.4C System Management must retain the notices it receives under clause 3.21.4A, and must submit a copy of the notices received to the IMO:
- (a) where requested by the IMO; and
 - (b) not less than once every six months.
- 3.21.8 System Management must document the procedure it follows in determining and reporting Forced Outages and Consequential Outages in the Power System Operation Procedure and System Management, Market Participants and Network Operators must follow that documented Market Procedure when determining and reporting Forced Outages and Consequential Outages.

Glossary:

Authorised Officer: In respect of a Market Participant, a Director or Officer as defined in the Corporations Act.