



**Independent Market Operator**

**Final Rule Change Report:  
Consequential Outage – Relief  
from capacity refund and  
unauthorised deviation penalties**

**Ref: RC\_2010\_23**

**Date: 18 January 2011**

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## 1. INTRODUCTION

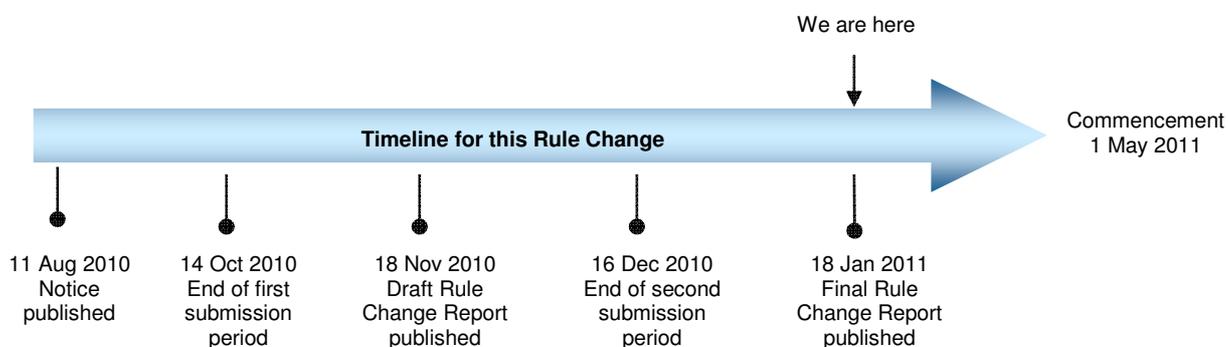
On 3 August 2010 Alinta submitted a Rule Change Proposal regarding amendments to clauses 6.15.1 and 6.15.2 of the Wholesale Electricity Market Rules (Market Rules).

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 was 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 3 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:



The IMO's final decision is to accept the Rule Change Proposal in a modified form. 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, 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);

- the views expressed at the public workshop held for the Rule Change Proposal; 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](http://www.imowa.com.au/RC_2010_23)

## 2. THE RULE CHANGE PROPOSAL

### 2.1 Submission Details

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

### 2.2 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.

### 2.3 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).

#### **2.4 The 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.

#### **2.5 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 satisfied 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.

### **3. 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 specific 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. Sections 3.1 and 3.2 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.

### **3.1 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.

### **3.2 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.

### ***3.2.1 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 South West interconnected system (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.

### **3.3 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 to the Rule Change Notice 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.

### **3.4 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.

#### **3.4.1 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.

### **3.4.2 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.

### **3.4.3 Conclusions**

The outcomes of the IMO's investigations were presented at the 13 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 agreed 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 considered 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).

### **3.5 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 expressed support for the Rule Change Proposal. The submissions from Griffin Energy and Perth Energy, received prior to the publication of the IMO's addendum, supported the amendments as proposed by Alinta. LGP and Synergy supported the alternative methodology and its implementation through the drafting in the IMO's addendum. LGP also supported 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 queried the impact of Consequential Outages on Capacity Cost Refunds. Griffin Energy also raised 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 agreed that the changes would better facilitate the achievement of Market Objectives (a), (b) and (d). LGP considered that the changes are consistent with the Market Objectives and in particular support Market Objective (a).

### **3.6 The IMO's response to submissions received during the first submission period**

The IMO's response to each of the issues raised in submissions received during the first submissions period is presented in Appendix 3.

### **3.7 Public Forums and Workshops**

No public forums or workshops were held in relation to this Rule Change Proposal during the first submission period. A public workshop was held during the second submissions period. Details of the workshop are contained in section 6.3 of this report.

### **3.8 Additional Amendments to the Amending Rules**

Following the first public submission period, the IMO 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 4 of this report.

#### 4. THE IMO'S DRAFT ASSESSMENT

The IMO's draft assessment, against clauses 2.4.2 and 2.4.3 of the Market Rules, and analysis of the Rule Change Proposal can be viewed in the Draft Rule Change Report (available on the IMO's website).

#### 5. THE IMO'S DRAFT DECISION

Based on the matters set out in the Draft Rule Change Report, the IMO's draft decision, in accordance with clause 2.7.7(f), was to accept the Rule Change Proposal as modified by the amendments outlined in section 3.8 and specified in Appendix 4 of this report.

The IMO 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;
- had the general support of the MAC members; and
- had the general support of submissions received during the first submission period.

##### ***5.1 Additional Amendments to the Amending Rules and Addendum to the Draft Rule Change Report***

Following further internal review and discussion with System Management after the publication of the Draft Rule Change Report, the IMO identified some additional changes to the proposed Amending Rules. These additional changes:

- enforced the requirement for a Market Participant to confirm the details of a Consequential Outage in a notice signed by an Authorised Officer;
- extended the notice requirement to all Facility types, not just Scheduled Generators and Dispatchable Loads, due to the potential financial impacts of Consequential Outages on other Facility types;
- corrected cross-reference errors in clause 3.21.6 (c) and (d); and
- clarified the Glossary definition of Authorised Officer.

The IMO published an addendum to the Draft Rule Change Report on 1 December 2010, which contained the proposed revised drafting of the Amending Rules. The addendum to the Draft Rule Change Report is available on the IMO's website. In the addendum, the IMO acknowledged that, because the addendum was not contained in the Draft Rule Change Report, it had no formal standing. However, the IMO invited interested stakeholders to make submissions on the Draft Rule Change Report as

previously notified, and if considered appropriate the IMO invited interested stakeholders to take into account the revised proposed drafting contained in the addendum.

The additional amendments proposed by the IMO in its addendum to the Draft Rule Change Report are contained in Appendix 5 of this report.

## **6. SECOND SUBMISSION PERIOD**

Following the publication of the Draft Rule Change Report on the IMO website, the second submission period was between 19 November 2010 and 16 December 2010.

### **6.1 Submissions received**

The IMO received submissions from LGP and TransAlta. The full submissions are available on the IMO website.

In summary, LGP supports the Draft Rule Change Report and the addendum to that report, as having comprehensively reviewed the issue and arrived at a reasonable and practicable conclusion. However TransAlta, while supporting the changes to clauses 6.15.1 and 6.15.2, does not support the additional governance arrangements proposed in the Draft Rule Change Report and its addendum. Specifically, TransAlta considers that the requirement to submit a notice signed by an Authorised Officer to System Management in the event of a Consequential Outage is unnecessary and an additional administrative burden on Market Participants. TransAlta believes that the existing governance framework built into the Market Rules is sufficient and that System Management already has all the necessary information to verify a claim for a Consequential Outage in accordance with clause 3.21.2.

LGP considers that the proposed amendments are consistent with the Wholesale Market Objectives, and in particular support Wholesale Market Objective (a). TransAlta believes that the proposed changes to clauses 6.15.1 and 6.15.2 (but not the other proposed changes relating to governance arrangements) will better facilitate the achievement of Wholesale Market Objectives (a), (b) and (d).

### **6.2 The IMO's response to submissions received during the second submission period**

TransAlta raised a number of points in its submission on the Rule Change Proposal. The IMO's response to each of these points is presented in the table over the page:

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Clause	Submitter	Comment/Change Requested	IMO's response
3.21	TransAlta	TransAlta understands the justification for separate governance arrangements is based solely on an assumption that Market Participants would potentially "game" the proposed rule change by either claiming a Forced Outage as a Consequential Outage, or exaggerating the impact of the Consequential Outage on the Facility. The assumption is yet to be tested.	<p>System Management has advised that there may be situations in which it cannot be certain about either the occurrence or the extent of a Consequential Outage reported by a Market Participant, particularly within the timeframes imposed by the Settlement process. Based on this advice, the IMO considers that under Alinta's proposed amendments there is definitely potential for Market Participants to try to game the arrangements, by fabricating or exaggerating the impact of a Consequential Outage.</p> <p>It is not possible to test the materiality of the problem at this time, as currently there is no incentive for a Market Participant to make a false or exaggerated submission. For this reason, the IMO has chosen to adopt a cautious approach, which includes governance arrangements proposed by System Management and supported by the MAC. It is anticipated that the additional governance arrangements will act both as a disincentive against potential gaming and as a good quality data source for the review of Consequential Outage submissions to be conducted six months after the commencement of the Amending Rules.</p>
3.21	TransAlta	TransAlta believes the governance framework built into the current Market Rules is sufficient. There is no need to bring in separate governance arrangements in relation to Consequential Outages, adding unnecessary administrative burden to Market Participants.	<p>The proposed amendments:</p> <ul style="list-style-type: none"> <li>• provide greater clarity to System Management on its obligations in cases where the determination of a Consequential Outage is not straightforward;</li> <li>• provide an additional incentive (through the requirement for a signed letter) for Market Participants to avoid making erroneous or exaggerated Consequential Outage submissions; and</li> <li>• encourage Market Participants (through the letter requirement) to provide more complete and reliable information about their Consequential Outages within the timeframes required for Settlement – this information can be used both by System Management in its determinations under clause 3.21.2 and by the proposed six month review of submissions.</li> </ul> <p>The IMO considers that the additional governance arrangements are warranted at this time, given the uncertainty around the frequency and nature of Consequential Outage submissions after the commencement of this Rule Change. Assuming the current submission frequency, the additional administrative burden on Market Participants should be very small, especially in straightforward cases (such as the overrun of a network Planned Outage) where only a brief explanation of the circumstances would be required.</p>

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Clause	Submitter	Comment/Change Requested	IMO's response
3.21	TransAlta	Only authorised personnel of a Market Participant can lodge Consequential Outages via System Management's Market Information Technology System (SMMITS) web portal. The IMO Addendum that requires a Market Participant to issue a separate notice to System Management signed by an Authorised Officer as defined in the Corporations Act appears a double-handling to this existing market process.	Market Participant users of SMMITS are not necessarily Authorised Officers as defined in the Corporations Act, and in larger companies are quite unlikely to be so. As such, an entry made by an operator into SMMITS is not equivalent to a signed letter from an Authorised Officer of the company. The requirement for the involvement of an Authorised Officer has been proposed deliberately, to provide additional incentive to Market Participants to ensure the accuracy and completeness of their submissions. The use of a letter will also allow Market Participants to provide supporting information (e.g. diagrams, data extracts, photographs or expert reports) where appropriate that could not be provided via the SMMITS interface.
3.21	TransAlta	It makes little business sense for an Authorised Officer of a company to sign on outages that may have occurred only in one interval in order to apply for Consequential Outages.	For the sake of simplicity, the IMO has not proposed any threshold around the requirement for a letter from an Authorised Officer in the event of a Consequential Outage. However, in its proposed review of Consequential Outage submissions the IMO will consider whether the frequency of small submissions with a low financial impact warrants the implementation of such a threshold. It should however be noted that a Consequential Outage spanning a single Trading Interval can still have a large financial impact on the relevant Market Participant.
3.21	TransAlta	After a Market Participant has lodged a claim for Consequential Outages, it is subject to System Management to verify the claim in accordance with clause 3.21.2 of the Market Rules. TransAlta believes System Management has all the necessary information to properly perform its functions described in the Market Rules. If System Management believes it has insufficient information to perform its functions then the deficiency must be resolved.	System Management has advised the IMO that in some situations it might not have the necessary information or resources to verify a Consequential Outage claim, particularly in the timeframes required for Settlement. The proposed review of Consequential Outage submissions will include an assessment of the extent of this problem and (if it proves to be significant) whether additional amendments to the Market Rules should be made to address the issue. Alternatively, if the number of problematic submissions proves to be very small then the IMO may consider the modification or removal of some of the additional governance requirements for Consequential Outages.

### 6.3 Public forums and workshops

The IMO held a public workshop on 9 December 2010, to give stakeholders an opportunity to discuss any issues of concern around the governance arrangements for Consequential Outages proposed in the addendum to the Draft Rule Change Report. The workshop was attended by representatives from the IMO, System Management, Alinta, TransAlta and ERM Power.

The following points were noted/discussed in the workshop.

- There was general in principle agreement that a Market Participant that suffers a Consequential Outage should receive relief from capacity refunds and unauthorised deviations penalties.
- System Management noted that there is difficulty in determining the existence or extent of a Consequential Outage in some situations, as it is difficult to link the causality between a Market Participant's submission and SWIS events.
- ERM Power agreed that in some cases the determination of a Consequential Outage is not straightforward, providing an example of an outage that was originally assumed to be Consequential but after further investigation proved to be caused by a problem with ERM Power's equipment.
- Alinta and TransAlta did not support the requirement for a letter signed by an Authorised Officer, considering that it was an unnecessary step in the process and an administrative burden to Market Participants. Alinta and TransAlta believed that Alinta's original proposed amendments should be progressed without any additional governance arrangements, suggesting that these could be considered at a later date if evidence of gaming was found.
- Alinta considered that the existing market surveillance framework was sufficient to deter Market Participants from attempting to game the arrangements.
- Alinta considered that as only authorised personnel of a Market Participant had access to SMMITS, a claim for a Consequential Outage submitted into SMMITS represented an affirmation equivalent to a letter signed by an Authorised Officer.
- TransAlta considered that System Management should already have all the information it needs to verify a Consequential Outage in accordance with clause 3.21.2. If System Management believes it has insufficient information to perform its functions then the deficiency must be resolved.
- Alinta and TransAlta considered that a Market Participant should be able to provide adequate details of a Consequential Outage through the existing SMMITS interface. There was some discussion about the amount and type of information that could be recorded in SMMITS. (Following the workshop, System Management confirmed to the IMO that SMMITS provided a 4000 character description field for a Consequential Outage. At present these text descriptions are not forwarded by System Management to the IMO.)

## 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.

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 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 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.

## **7.2 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).

The requirement for a signed letter in the event of a Consequential Outage will result in minor additional administrative costs for the Market Participants affected.

### **Practicality:**

The IMO has not identified any significant issues with the practicality of implementing the proposed changes. The IMO notes that two participants have raised concerns about the administrative burden imposed by the strengthened governance requirements, but considers that the impact of these requirements on individual participants (assuming no major increase in the reporting of Consequential Outages) would be very small.

## **7.3 Views expressed in submissions**

The IMO received submissions from four Rule Participants during the first submission period and from two Rule Participants during the second submission period. In summary, all the submissions received supported the general principle that a Facility suffering a Consequential Outage should not be subjected to capacity refunds and unauthorised deviation penalties.

Two submissions from the first submission period expressed support for the alternative methodology presented in the IMO's addendum to the Rule Change Notice, 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 submission received from LGP during the second submission period supported the proposed amendments in the IMO's addendum to the Draft Rule Change Report. However, the submission from TransAlta supported only the original amendments to clauses 6.15.1 and 6.15.2 proposed by Alinta. TransAlta did not support the additional amendments around governance in the IMO's addendum, considering that they constituted an additional and unnecessary administrative burden on Market Participants.

#### **7.4 Views expressed by the 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 3.4.2 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: approximately \$19,000; and
- Alternative (including partial Consequential Outages): approximately \$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.

## 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 accept the Rule Change Proposal as modified by the amendments outlined in sections 3.8 and 5.1 and specified in Appendices 4 and 5 of this report.

### 8.1 *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 the majority of submissions received in the first and second submission periods.

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 final 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 decision is outlined in section 7 of this Final Rule Change Report.

## 9. AMENDING RULES

### 9.1 Commencement

The amendments to the Market Rules resulting from this Rule Change Proposal will commence at **8.00am** on **1 May 2011**.

### 9.2 Amending Rules

The IMO's final decision is to amend the Market Rules. The following clauses are amended (~~deleted wording~~, new wording):

3.21.2. A Consequential Outage is an outage of a Facility or item of equipment on the list described in clause 3.18.2 for which no approval was received by System Management, but which System Management determines:

- (a) was caused by a Forced Outage to another Rule Participant's equipment; and
- (b) would not have occurred if the other Rule Participant's equipment did not suffer a Forced Outage.

but excludes any outage deemed not to be a Consequential Outage in accordance with clause 3.21.10.

3.21.6 The following will apply for the purposes of clauses 7.3.4 (a) and 7.13.1A (b):

- (a) outage data will be entered by Market Participants in System Management's computer interface system on a sent out basis at 15 degrees Celsius. System Management will convert the outage data to a sent out basis at 41 degrees Celsius by multiplying the outage quantity at 15 degrees Celsius by the ratio of the maximum capacity at 41

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degrees Celsius to the maximum capacity at 15 degrees Celsius for the Facility as found in the Standing Data file for temperature dependence provided under Appendix 1(b) iv on a generated basis for that facility. Market Participants will submit the outage data at 41 degrees Celsius as displayed by System Management's computer interface system;

- (b) System Management will calculate the Forced Outage (on a sent out basis at 41 degrees Celsius) for a Facility in a Trading Interval as the greater of:
  - i zero and
  - ii the sum of all Forced Outages notified for that Facility minus the difference of the Facility maximum capacity and its Reserve Capacity Obligation Quantity;
- (c) System Management will calculate the Planned Outage (on a sent out basis at 41 degrees Celsius) for a Facility in a Trading Interval as the greater of:
  - i. zero and
  - ii. the sum of all Planned Outages minus the greater of:
    - 1. zero and
    - 2. the maximum capacity of the Facility minus its Reserve Capacity Obligation Quantity minus the sum of all Forced Outages notified for the Facility before the adjustment in (a**b**) above is made by System Management; and
- (d) System Management will calculate the Consequential Outage (on a sent out basis at 41 degrees Celsius) for a Facility in a Trading Interval as the greater of:
  - i. zero and
  - ii. the sum of all Consequential Outages minus the greater of:
    - 1. zero and
    - 2. the maximum capacity of the Facility minus its Reserve Capacity Obligation Quantity minus the sum of all Forced Outages and the sum of all Planned Outages notified for the Facility before the adjustments in (a**b**) and (b**c**) above are made by System Management;
- (e) the IMO will provide System Management the Reserve Capacity Obligation Quantity of each Facility as currently applicable;

- (f) the maximum capacity used in this clause is the value defined in clause 3.21.5.

3.21.8 If a Market Participant considers that one of its Facilities has suffered a Consequential Outage then the Market Participant may provide System Management with a notice confirming 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) confirm that a Consequential Outage has occurred; and
- (c) provide details (to the best of its knowledge) of the events which resulted in the Consequential Outage.

3.21.9 In its determination of a Consequential Outage under clause 3.21.2, System Management must accept the information provided by a Market Participant under clause 3.21.8 unless the information is inconsistent with other information held by System Management.

3.21.10 If a Market Participant informs System Management of a Consequential Outage under clause 3.21.4, but does not provide System Management with a notice in accordance with clause 3.21.8, then the outage will be deemed not to be a Consequential Outage and System Management must not include the outage as a Consequential Outage in the schedule provided to the IMO in accordance with clause 7.13.1A(b).

3.21.11 System Management must retain the notices it receives under clause 3.21.8, and must provide copies to the IMO:

- (a) if requested by the IMO; and
- (b) at least once every six months.

3.21.12 System Management must document the procedure to be followed 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.

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, an Officer as defined in Section 9 of 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: THE IMO'S RESPONSE TO SUBMISSIONS RECEIVED DURING THE FIRST SUBMISSION PERIOD

The IMO's response to each of the issues identified during the first submission period is presented in the following table.

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.

## APPENDIX 4: ADDITIONAL AMENDMENTS MADE BY THE IMO FOLLOWING THE FIRST SUBMISSION PERIOD

The IMO 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.

## APPENDIX 5: ADDITIONAL AMENDMENTS MADE BY THE IMO IN THE ADDENDUM TO THE DRAFT RULE CHANGE REPORT

The IMO made additional amendments to the Amending Rules in an addendum to the Draft Rule Change Report published on 1 December 2010. These changes are as follows (~~deleted text~~, added text):

- 3.21.2. A Consequential Outage is an outage of a Facility or item of equipment on the list described in clause 3.18.2 for which no approval was received by System Management, but which System Management determines:
- (a) was caused by a Forced Outage to another Rule Participant's equipment; and
  - (b) would not have occurred if the other Rule Participant's equipment did not suffer a Forced Outage,
- but excludes any outage deemed not to be a Consequential Outage in accordance with clause 3.21.10.
- ~~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.~~
- 3.21.6 The following will apply for the purposes of clauses 7.3.4 (a) and 7.13.1A (b):
- (g) outage data will be entered by Market Participants in System Management's computer interface system on a sent out basis at 15 degrees Celsius. System Management will convert the outage data to a sent out basis at 41 degrees Celsius by multiplying the outage quantity at 15 degrees Celsius by the ratio of the maximum capacity at 41

degrees Celsius to the maximum capacity at 15 degrees Celsius for the Facility as found in the Standing Data file for temperature dependence provided under Appendix 1(b) iv on a generated basis for that facility. Market Participants will submit the outage data at 41 degrees Celsius as displayed by System Management's computer interface system;

- (h) System Management will calculate the Forced Outage (on a sent out basis at 41 degrees Celsius) for a Facility in a Trading Interval as the greater of:
  - i zero and
  - ii the sum of all Forced Outages notified for that Facility minus the difference of the Facility maximum capacity and its Reserve Capacity Obligation Quantity;
- (i) System Management will calculate the Planned Outage (on a sent out basis at 41 degrees Celsius) for a Facility in a Trading Interval as the greater of:
  - i. zero and
  - ii. the sum of all Planned Outages minus the greater of:
    - 3. zero and
    - 4. the maximum capacity of the Facility minus its Reserve Capacity Obligation Quantity minus the sum of all Forced Outages notified for the Facility before the adjustment in (a**b**) above is made by System Management; and
- (j) System Management will calculate the Consequential Outage (on a sent out basis at 41 degrees Celsius) for a Facility in a Trading Interval as the greater of:
  - i. zero and
  - ii. the sum of all Consequential Outages minus the greater of:
    - 1. zero and
    - 2. the maximum capacity of the Facility minus its Reserve Capacity Obligation Quantity minus the sum of all Forced Outages and the sum of all Planned Outages notified for the Facility before the adjustments in (a**b**) and (b**c**) above are made by System Management;

- (k) the IMO will provide System Management the Reserve Capacity Obligation Quantity of each Facility as currently applicable;
- (l) the maximum capacity used in this clause is the value defined in clause 3.21.5.

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.~~ If a Market Participant considers that one of its Facilities has suffered a Consequential Outage then the Market Participant may provide System Management with a notice confirming 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) confirm that a Consequential Outage has occurred; and
- (c) provide details (to the best of its knowledge) of the events which resulted in the Consequential Outage.

3.21.9 In its determination of a Consequential Outage under clause 3.21.2, System Management must accept the information provided by a Market Participant under clause 3.21.8 unless the information is inconsistent with other information held by System Management.

3.21.10 If a Market Participant informs System Management of a Consequential Outage under clause 3.21.4, but does not provide System Management with a notice in accordance with clause 3.21.8, then the outage will be deemed not to be a Consequential Outage and System Management must not include the outage as a Consequential Outage in the schedule provided to the IMO in accordance with clause 7.13.1A(b).

3.21.11 System Management must retain the notices it receives under clause 3.21.8, and must provide copies to the IMO:

- (a) if requested by the IMO; and
- (b) at least once every six months.

3.21.12 System Management must document the procedure to be followed 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.

**Glossary:**

**Authorised Officer:** In respect of a Market Participant, an ~~Director or~~ Officer as defined in Section 9 of the Corporations Act.