

## Market Participant Comments / IMO Responses - 8 August 2011

| Market Participant who provided response | Issue/comment   | IMO Response   |
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| <b>Alinta</b>                            |   |  |
| <b>Alinta – Corey Dykstra</b><br>1.      | Why is “Electricity Generation Corporation” changed to “Verve Energy”. Is it intended that this term be amended throughout the Market Rules? If so, will references to “Electricity Networks Corporation” be changed to “Western Power”; and “Electricity Retail Corporation” be similarly changed to “Synergy”?<br><br>(Verve – Andrew/Wendy also make this point).  | The similarities between the different state owned entities and the increased references to the Electricity Generation Corporation and Electricity Generation Corporation Facilities in the new balancing rules, combined to make the use of “Electricity Generation Corporation” a cumbersome and potentially confusing moniker. The IMO considers that the new drafting using Verve Energy creates an easier to read set of Market Rules.<br>The IMO agrees with Alinta that to ensure consistency the other state owned entities should also be renamed.  |
| 2.                                       | <b>2.16.2</b> - It would appear that Verve Energy’s Portfolio Supply Curve is not included in the “Market Surveillance Data Catalogue” set out in clause <b>2.16.2</b> – this appears inconsistent with the inclusion of Balancing Submissions in respect of other Balancing Facilities, including Verve Energy’s Stand Alone Facilities. What is the rationale for this?   | The intention is to include the Verve Energy Portfolio Supply Curve. The definition of “Balancing Submission” includes the Verve Energy Balancing Portfolio Supply Curve, hence the reference to Balancing Submissions in clause 2.16.2 results in the Verve Energy Balancing Portfolio Supply Curve being included in the Market Surveillance Data Catalogue.   |
| 3.                                       | <b>2.16.9(b)</b> - Given its role in monitoring “inappropriate and anomalous” market behaviour, including, behaviour related to market power and the exploitation of shortcomings in the Market Rules or Market Procedures”, it’s not clear why the ERA’s role under clause <b>2.16.9(b)</b> should not explicitly be extended to the Balancing Market.   | The first sentence of clause 2.16.9 gives the ERA the role and responsibility to monitor the effectiveness of the Balancing and LFAS Markets. Clause 2.16.9(b) requires the ERA, with the IMO’s assistance, to monitor inappropriate and anomalous market behaviour, including, behaviour related to market power and the exploitation of shortcomings in the Market Rules, which includes the Balancing and LFAS Markets and associated provisions, particularly clauses 7A.2.15 and 7B.2.13.<br>The IMO proposes not to include a specific reference to the ERA monitoring a particular aspect of those Markets or associated activities as the IMO considers there is no single matter or activity that should be the subject of particular ERA scrutiny and to do so could narrow the ERA’s focus. However the IMO is open to contrary specific suggestions. |
| 4.                                       | <b>7.7.7</b> - There is a risk that the ability under the proposed amended clause <b>7.7.7</b> for System Management to communicate Dispatch Instructions or Operating Instructions at a later time and by a method agreed with the Market Participant in respect of Facilities where it has Operational Control may, or will be perceived to give, favourable treatment of those Facilities. Is this clause necessary? | This clause only allows SM to delay the actual issuance of a DI in the situation where SM has direct control of a facility for the purposes of dispatch. This is to avoid the need for SM to effectively issue a DI to themselves in a situation where time may be of the essence. The clause does not reduce SMs obligation to dispatch in accordance with the BMO and as such should not result in favourable treatment of facilities to which this clause relate.   |

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| 5.                                       | <p><b>7A.1.8</b> - The ability under the proposed clause 7A.1.8 of the IMO to either waive the Balancing Facility Requirements or alternatively to impose conditions on the manner in which a Market Participant participates in the Balancing Market in respect of a Facility is broad and could clearly have significant commercial and financial ramifications for an individual Market Participant. It would appear reasonable that there be an obligation on the IMO to not unreasonably discriminate between Market Participants in exercising this power. In addition, procedural fairness suggests that Market Participants be afforded an opportunity to have any decision the IMO might make reviewed.</p>   | <p>The IMO must take into account the Balancing Objectives and the objectives in clause 1.2.1 in deriving and applying the Balancing Facility Requirements. The IMO considers that this is sufficient to prevent any unreasonable discrimination between Market Participants and that any further restrictions could result in unfair barriers to entry into the Balancing Market. However the IMO accepts that Market Participants will be interested in the outcome of any decision and proposes to amend the rules to require the IMO to publish the results of any decisions it makes to impose conditions or exemptions.</p>   |
| 6.                                       | <p><b>7A.2.15</b> - Proposed clause 7A.2.15 imposes the 'SRMC when market power' rule in respect of Balancing Facility Submissions – however, it does not appear in respect of Verve Energy's Portfolio Supply Curve. In my previous comments, I had suggested this obligation should apply to Balancing Facilities generally.</p>   | <p>AS above (issue 2) a balancing Submission includes the Verve Energy balancing PSC.</p>   |
| 7.                                       | <p><b>Chapter 10</b> - While there appeared to be general support at the last forum for disclosing generator send out data, this does not appear to be included in Chapter 10?</p>   | <p>The IMO has not proposed to include facility specific SCADA data as a confidential piece of market data, which under the proposed changes to the confidentiality provisions means that this data could be made available to the public by the IMO</p>  |
| 8.                                       | <p>In addition, while generally supporting the move towards including matters of 'detail' in Market Procedures, I did raise some concerns about the potential implications for Rule Participants in relation to the amendment of Market Procedures. I discussed these with a number of people at the last forum, but specifically:</p> <ul style="list-style-type: none"> <li>- only the IMO and SM can initiate changes to Market Procedures – unlike the Market Rules where any person can propose a Rule Change.</li> <li>- There is only a single round of consultation on a Procedure Change Proposal.</li> </ul> <p>Thinking about some of the issues of 'detail' that may ultimately be included in Market Procedures (eg methodology for reserve capacity certification and cost allocation of ancillary services costs), it may be worth examining whether Market Participants are sufficiently comfortable with retaining the current process for amendments to Market Procedures should the Market Rules evolve to provide for increased reliance on Market Procedures.</p> | <p>The IMO notes that a Market Participant may, under clause 2.10.2 notify suggested changes to or replacement of procedures to the IMO. Further, given the IMO's functions under clause 2.1.2(j) and obligations under clauses 2.9.1 and 2.9.3, a reasonable suggested change or replacement would need to be considered and if it had merit, progressed by the IMO. The IMO has also made amendments to the drafting requiring the IMO to advise a MP where the IMO decided not to progress a change/replacement, together with reasons.</p> <p>Additionally the IMO is currently considering a more fundamental redesign of the procedure change process as a separate exercise from the work being currently undertaken by the MEP. More information on this will be forthcoming.</p> |

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| 9.                                       |   |   |
| <b>Verve Energy</b>                      |   |   |
| <b>Verve Energy</b><br>Wendy Ng<br>1     | <b>Chapter 10</b> – Changes to Chapter 10 in relation to information confidentiality status could warrant a separate discussion. Indeed there was a suggestion of having a working group for this purpose. We would suggest that these changes not be considered as part of the new balancing market rule changes – it is sufficiently complex and not helped with another layer of changes.  | The IMO notes that all markets rely on accurate and timely provision of data to market participants. This facilitates more informed decision-making by participants enabling them to anticipate and respond more efficiently to market requirements. Importantly, it also ensures greater transparency regarding the operation of the market and the behaviour of participants, increasing confidence in the market arrangements. The IMO notes that the new Balancing Market provisions will greatly enhance the real-time nature of the Wholesale Electricity Market. As such the IMO considers that the changes to the confidentiality clauses) are an essential part of successful implementation of the new balancing market provisions.   |
| 2.                                       | Focussing on the more significant issues and repeating some of the points we raised earlier:<br>The rebidding restriction on Verve Energy is still a concern. While we will not reiterate the points we made in our earlier note we want to highlight that while the restriction is on Verve Energy the impact will flow on to the market – it will be less efficient.  | The IMO notes that the new Balancing Market will provide considerably greater flexibility to Verve Energy: <ul style="list-style-type: none"> <li>• The initial portfolio submission will be presented well after STEM (the current and sole submission) taking account of a SM Dispatch Plan prepared with later information (fuel, demand, wind and resource plans)</li> <li>• Regular portfolio resubmission opportunities (up to 7 times for some intervals; plus for a facility forced outage)</li> <li>• Opportunities to split facilities from the portfolio and participate on a stand-alone basis</li> </ul> The IMO notes that Verve Energy also has inherently greater flexibility in participating on a portfolio basis, deciding with SM how facilities within the portfolio are to be operated to meet BMO commitments. <p>Finally, the IMO considers that the proposed arrangements provide an appropriate balance between flexibility and potential concerns about the dominant position of the Verve Energy portfolio in the Balancing Market.</p> |
| 3.                                       | We are still unclear how the post gate closure submissions under clauses <b>7A.2.8(d)</b> and <b>7A.2.9</b> will be dealt with. If the gate closure could be pushed as near to real time as possible the exposure for post gate closure events could be minimised – much improved from current market structure. It might then be possible for Market Participants to bear the exposure instead of building complexity in the market design. For example, if there was a 2 or 4 hour gate closure, if a facility falls over between | Firstly, the IMO agrees that having Gate Closure closer to real time is desirable, but notes that System Management is likely to have concerns about moving too close to real time initially. Secondly if the IMO were to leave the Balancing Submission standing when a facility “falls over” after gate closure, this would be undermine a number of fundamental market design principles: <ol style="list-style-type: none"> <li>1. SM is required to dispatch in accordance with the BMO it receives from the IMO. SM must be able to rely on the BMO</li> </ol>  |

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|  | <p>gate closure and commencement of Trading Interval, then the facility is locked in with pre-gate closure bid submissions until its next gate closure. This would deliver a simpler solution than what is probably envisaged at this stage.</p>   | <p>and participants, not the IMO or SM, must ensure that it is as accurate as practicable;</p> <ol style="list-style-type: none"> <li>2. Pricing and dispatch must be consistent to the greatest extent possible. Again the BMO must be as accurate as practicable;</li> <li>3. Market forecasts (pricing and dispatch quantities) must be as accurate as practicable. If not, this undermines participants' ability to make efficient decisions and to comply with their good faith obligations to take forecasts into account when preparing balancing submissions.</li> </ol> <p>Further, in addition to the expectation that participants ought to be able to rely on market forecasts, and System Management on the BMO, requiring any change to capabilities within gate closure to be reflected in resubmissions, and reasons provided, is important because after gate closure other participants have no ability to respond.</p> |
| 4.                                       | <p>BSC, while none has come into existence so far, appears to have been removed in the drafting. While Verve Energy continues to be the major balancing generator and other Market Participants may not be fully participating in the new balancing market, unless BSC continuing provisions in the rules could not be accommodated it might be worthwhile keeping them in at this stage of market development.</p>  | <p>The IMO considers that the new balancing arrangements, which are mandatory, will provide opportunities for others to participate in balancing with certainty about dispatch and pricing outcomes. As such there is no need to retain BSCs. However, the IMO notes that Verve could consider bilateral balancing arrangements with other parties</p>  |
| 5.                                       | <p>Balancing Horizon definition appears to exclude the remaining Trading Intervals in the Trading Day the afternoon of which the balancing bids and offers are submitted. With the rebidding restriction on Verve Energy:</p> <ol style="list-style-type: none"> <li>(a) This removes our ability to update our prices from, say, two hours after 5pm for the balance of the Trading Day except when allowed due to forced outages and hopefully other eventualities to be added. This will place us at a further disadvantage compared with IPPs.</li> <li>(b) Being the major generator and more likely to be influencing the balancing prices the market could have more cost reflective balancing prices if the 5pm balancing submission includes updating the prices for the balance of the Trading Day.</li> </ol> | <p>The IMO notes that the current drafting of the definition of the Balancing horizon excludes the time from 6PM to 8PM each afternoon and will rectify this issue in the next draft set of rules.</p>  |
| 6.                                       | <p>Balancing Price-Quantity Pairs:</p> <ol style="list-style-type: none"> <li>(a) Price will be in \$MWh basis – energy – while quantity will be EOI MW. It will be useful for the IMO to elaborate on</li> </ol>  | <ol style="list-style-type: none"> <li>(a) Each Quantity in the price-quantity pairs will involve a target MW and a ramp rate limit, as such it should be possible for participants to calculate the maximum energy exposure</li> </ol>   |

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|  | <p>this: how a Market Participant could relate price and quantity.</p> <p>(b) In the case of IPP, the quantity will be sent out at site and the IMO will convert the prices to be loss factor adjusted for BMO. We have already heard IPP questions on this.</p>  | <p>associated with a tranche and associate a price with this per MWh</p> <p>(b) The IMO responded to this issue as part of agenda item 4 at meeting 14 of the RDIWG. Please let the IMO if more information is required.</p>   |
| 7.                                       | <p>Would the Ramp Rate Limit be:</p> <p>(a) Common for all price-quantity steps for a single facility or could it be different from different steps?</p> <p>(b) In dispatching could the Ramp Rate Limit be a given as submitted or could the ramp rate be determined in market clearing or System Management dispatch process so long as the ramp rate chosen is within the Ramp Rate Limit submitted?</p> <p>(c) Would there be a minimum ramp rate for a facility to participate in balancing and not lose its Reserve Capacity Credits?</p>   | <p>(a) It is proposed that for a given interval this number be common amongst all tranches. Regular forecasts and rebidding opportunities should enable participants to submit accurate RRLs</p> <p>(b) The Ramp rate limit is the maximum SM may choose to ramp a facility at, therefore it is at SMs discretion as to the final Ramp Rate a facility will be asked to ramp at</p> <p>(c) As long as a facility is able to ramp in response to dispatch instructions and SM knows its ramp rate capability, it should be able to participate in balancing. Setting a minimum ramp rate requirement would limit participation.</p> |
| 8.                                       | <p>Explanatory notes on Clauses <b>6.17.3, 6.17.4, 6.17.5 and 6.17.6A</b> on constrained quantities and prices will be helpful. Worked examples will help.</p>  | <p>The IMO notes an explanatory paper was sent to RDIWG members on Friday August 19, 2011</p>  |
| 9.                                       | <p>Clause <b>6.17.10</b> Portfolio Tolerance as drafted is impractical. Perhaps “lesser” should be “greater”.</p>   | <p>The IMO notes that if the word lesser was replaced with greater, it would be more difficult for Verve Energy to receive constrained on/off quantities. The IMO does not propose to change this clause</p>   |
| 10.                                      | <p>Verve Energy moving a facility out of its portfolio into a Stand Alone Facility is designed on the following basis:</p> <p>(a) Verve Energy choice to request to trial a facility.</p> <p>(b) System Management has to agree to the trial.</p> <p>(c) The IMO to set the start date for the month trial.</p> <p>(d) Verve Energy choice to take the facility back to its portfolio or to have it as a Stand Alone Facility permanently.</p> <p>(e) Verve Energy choice to take the facility back is unconditional except for the date when it will be part of Verve Energy portfolio again – the IMO sets this date. How the IMO will determine this date has not been spelt out.</p> <p>(f) Verve Energy choice to keep the facility as a Stand Alone facility is subject to System Management confirming its acceptance.</p> <p>On this basis the following changes clarifying the mechanism</p> | <p>The IMO agrees with Verve Energy’s summary of the Stand Alone process. Specifically the IMO has the following responses to Verve Energy’s recommended drafting changes:</p> <p>(a) agreed</p> <p>(b) agreed</p> <p>(c) agreed.</p>  |

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|  | <p>would be more desirable:</p> <p>(a) In place of <b>7A.4.4(c)</b>: Within [seven] days of the end of the trial month Verve Energy must notify the IMO if it wishes the nominated Stand Alone Facility to permanently become a Stand Alone Facility. (Otherwise it will be returned to Verve Energy portfolio).</p> <p>(b) In place of clause <b>7A.4.5</b>: Before the end of the second Business Day after the end of the trial month the IMO must, if Verve Energy does not notify the IMO that it wishes the nominated Stand Alone Facility to permanently become a Stand Alone Facility, advise Verve Energy of the date which is not to be later than [ten] days after the end of the trial month when the facility will cease to be treated as a Stand Alone Facility.</p> <p>(c) In place of clause <b>7A.4.8</b>: Within [seven] days of System Management notification that the Nominated Stand Alone Facility could not be accepted as a Stand Alone Facility the IMO must notify Verve Energy of the date which must be within [14] days of the System Management notification when the facility will cease to be treated as a Stand Alone Facility.</p> |  |
| 11.  | <p>Verve Energy continues to support enhanced balancing and likes to see it implemented earlier than later. We however feel that the proposed rules will be better accepted and could be implemented earlier if Rule Participant concerns are addressed now rather than left to be addressed later. One area here is compliance. It will be disappointing if we fail to achieve enhanced balancing, not because there are fatal flaws in the design but lack of acceptance.</p>   | <p>The IMO notes Verve Energy’s concerns and agrees that a competitive balancing market is important for the continued efficient operation of the WEM.<br/>The IMO will be presenting on the enhanced compliance regime at the next RDIWG meeting.</p>                         |
| 12.  | <p>It might also be a case of keeping it simple and if LFAS is going to complicate enhanced balancing let us postpone that part til later.</p>  | <p>The IMO does not believe implementation of the LFAS market should be postponed. LFAS is an integral part of the new market design. Since this issue was submitted, the IMO has provided a comprehensive design paper and corresponding set of draft rules to the RDIWG.</p> |
| <b>Land Fill Gas</b>                               |   |  |
| <p><b>Land Fill Gas</b><br/>Steve Gould<br/>1.</p> | <p>The current drafting is causing me a “brown-out” in respect of what I perceive Corey coined as “the light-bulb moment”, describing the conversion of the original Balancing Scheme to a Minimum Cost Dispatch Scheme. While I acknowledge that the</p>   | <p>Noted, The IMO has since provided Mr Gould with a clean set of the proposed market rules.</p>   |

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|  | change-tracking creates a mess that obscures the theme, and a lot of information is yet to be developed under procedures, to my mind, the current draft contains features of both schemes and it is unclear which we're working to.   |  |
| 2.                                       | <p>While this is potentially only a minor drafting oversight, I perceive it to be important because the current wording provides for a potentially draconian removal of capacity certification rights on the basis of a participant not making any necessary investments to upgrade its facilities to meet the required performance. My initial impression is that this represents a potentially destructive level of Regulatory Risk and will not be accepted by participants. At a minimum, it needs to be more thoroughly discussed by the group as it potentially unnecessarily impedes the Balancing Scheme and its progress through the relevant approvals.</p> <p>In particular, I perceive the concept of the new Balancing Scheme to have been given conditional approval by participants on the basis that participation would be voluntary and would therefore leave them no worse off. While I support "compulsory" participation as a simplifying administrative efficiency, it seems to me unreasonable to link it to the potential loss of capacity Credits.</p> | <p>Noted, the IMO has made changes to the clause relating to the suspension of the Balancing requirements and its relation to capacity credit allocation.</p> <p>The IMO welcomes further discussion of the proposed changes at the RDIWG or through the rule change submission process.</p>   |
| 3.                                       | <p>Regarding the drafting, and noting that the focus originally was on voluntary participation in a scheme to allocate resources in real time to correct for errors in the day-ahead forecasts and resulting dispatch schedules, I find this supported by the definitions of Balancing</p> <p style="padding-left: 40px;">"...meeting supply and consumption deviations from contracted bilateral and STEM positions in each Trading Interval"</p> <p>and the</p> <p style="padding-left: 40px;">Relevant Dispatch Quantity: "the sum of the EOI Quantities for each Facility needed for Balancing..."</p> <p>An extension of this is that if the forecasts are accurate and all plant performs to plan, there is no need for Balancing and nothing gets dispatched...And the new Commissioning concept doesn't work.</p>   | <p>The IMO has made the following change to the definition of the balancing market to re-enforce the fact that The definitions of balancing relate to more than just "meeting" deviations from contracted positions. And that the Balancing market will now enable participants to buy and sell energy to "manage" their contractual commitments more efficiently</p> <p><b>Balancing:</b> <i>The process for meeting supply and consumption deviations from contracted bilateral and STEM positions in each Trading Interval.</i></p> <p><b>Balancing Market:</b> <i>Means the market operated under chapter 7A in which Facilities, including the Verve Energy Balancing Portfolio as a single Facility, can better manage their contractual positions and meet supply and consumption deviations from contracted bilateral and STEM positions in each Trading Interval.</i></p> |

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| 4.                                       | <p>In contrast, however, participation in balancing is now compulsory, all facilities have to be made available to Balancing and clause <b>7A.1.2C</b> (Balancing Objectives) states as an objective of the Balancing Market to:</p> <p style="padding-left: 40px;">“dispatch the lowest cost combination of resources made available for Balancing”.</p> <p>This is also supported by my understanding of one of the themes of the recent System Management workshop, to the effect that even during normal system conditions, participants will be dispatched off their Resource Plans unless they offer Balancing Prices to justify “Balancing” dispatch according to them (in effect, at the caps).</p> <p>Benefits of this approach include Commissioning being provided for much more flexibly, and STEM positions can be unwound if a participant receives unworkable dispatch outcomes. While I support this approach, I don’t perceive it to be unambiguously reflected in the draft wording.</p> | SEE above – the IMO agrees with this interpretation of the balancing market design and apologises for any misunderstanding                          |
| 5.                                       | <p>Additionally, I suggest that clauses <b>4.11.10</b> (Certification only if the Balancing Requirements are met), <b>4.1.10(k)</b> (Information Required for the Certification of Reserve Capacity), <b>7A1.8a</b> [Exemption from Balancing Obligations), <b>7A.1.6</b> (Facilities to meet Balancing Requirements) and <b>7A.1.9</b> (priority of Rules) need to be more carefully integrated.</p>  | Noted, see response to issue 2 above.   |
| 6.                                       | <p>I’d also like to suggest reconsideration of the Facility Dispatch Tolerances in clause <b>6.17.9</b> – is it still necessary to provide for these now that UDAP and DDAP no longer apply, and given that PSOP’s provide for dispatch tolerances?</p>  | The Facility dispatch tolerances are required for the calculation of Out of Merit Quantities, which are inputs for constrained on/off calculations. |

| Synergy Comment  | IMO Response  |
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| <p>We support Chapter 2 amendments that place an obligation on Rule Participants not to engage in conduct that is false and misleading – sets an appropriate standard of propriety for Market Participants.</p>  | <p>Noted</p>  |
| <p>We note and share the concern expressed by other Rule Participants in respect of the need to extend the ERA's role market effectiveness monitoring role in regard to the Balancing Market. We further suggest that consideration should be given to amending clause 2.16.9 to extend the ERA's purview in market effectiveness monitoring, in the context of meeting objectives, to also include the Balancing Market Objectives as set out in clause 7A.1.2.</p>   | <p>The first sentence of clause 2.16.9 gives the ERA the role and responsibility to monitor the effectiveness of the Balancing and LFAS Markets. Clause 2.16.9(b) requires the ERA, with the IMO's assistance, to monitor inappropriate and anomalous market behaviour, including, behaviour related to market power and the exploitation of shortcomings in the Market Rules, which includes the Balancing and LFAS Markets and associated provisions, particularly clauses 7A.2.15 and 7B.2.13.</p> <p>The IMO proposes not to include a specific reference to the ERA monitoring a particular aspect of those Markets or associated activities as the IMO considers there is no single matter or activity that should be the subject of particular ERA scrutiny and to do so could narrow the ERA's focus. However the IMO is open to contrary specific suggestions.</p> |
| <p>If the Market elects to proceed with implementing competitive LFAS arrangements then there will no longer a requirement for the Market Rules to contemplate System Management entering into separate Ancillary Service Contracts with individual providers – this is now redundant. Its retention may well weaken the resolve of the market to exploit the benefits that competitive provision can deliver. We therefore suggest that the requirement for 3.11.8, 3.22.2 and 3.22.3 should be reviewed.</p> | <p>The IMO cannot delete the concept of Ancillary Service Contracts from the Market Rules as these contracts are still needed to fund spinning reserve ancillary services.</p>  |

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| <p>We note provision is made for Market Participants to revise Balancing Submissions (quantities but not prices) post gate closure to the extent that it is inaccurate on account of previously unforeseen internal or external constraints. We support this provision as driving efficient outcomes (promotes dynamic efficiency) and also support the requirement for Market Participants adjusting Balancing Submissions post gate closure to provide details of the constraint triggering amended submission. While we recognise this represents a small additional cost for Market Participants, in our view it is necessary and appropriate to ensure the integrity of the Balancing Market.</p> | <p>Noted</p> |
| <p>Similarly, we support the requirement for Market Participants making Balancing Submissions to act in good faith and not act in a manner that is likely to lead in another Rule Participant into being misled in regard to a material fact in the Balancing Market. Imposing this obligation provides the necessary assurance to the market that Balancing Market outcomes will reflect the workings of an open, transparent and efficient market, key requirements for producing competitive, cost reflective prices. This comment can be extended to the LFAS market.</p>  | <p>Noted</p> |

## CRITICAL RULE AMENDMENTS

| RULE   | AMENDMENT   | IMO Response  |
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| <p><u>7.6.1B. In seeking to meet the Dispatch Criteria System Management must, subject to clause 7.6.1C, issue Dispatch Instructions in the following, descending order of priority:</u></p> <p><u>(a) Dispatch Instructions to Balancing Facilities in the order they appear in the BMO, taking into account Ramp Rate Limits;</u></p> <p><u>(b) a Dispatch Instruction to a Balancing Facility Out of Merit but only to the next Facility or Facilities in the BMO that System Management reasonably considers best meets the Dispatch Criteria;</u></p> | <p>“Reasonably considers best meets” in (b) – This is unclear, non transparent, not workable for SM.</p>  | <p>The IMO believes that the use of the words “reasonably considers best meets the Dispatch Criteria” give SM the heads of power and the flexibility to use whichever facility it reasonably thinks is necessary to “keep the lights on”. The IMO is concerned that a more prescriptive clause will not give SM adequate flexibility but is happy to consider any suggestions SM may have. The IMO notes there is transparency as SM will be required to give reasons for which facility it uses under its reporting requirements in clause 7.11.6(dA).</p> |
| <p><u>7.6.1C. System Management may only issue Dispatch Instructions under:</u></p> <p><u>(a) clause 7.6.1B(b) in priority to clause 7.6.1B(a);</u></p> <p><u>(b) clause 7.6.1B(c) in priority to clause 7.6.1B(b); and</u></p> <p><u>(c) clause 7.6.1B(d) in priority to clause 7.6.1B(c),</u></p> <p><u>where:</u></p>   | <p><u>(d) needs to state System Management considers, on reasonable grounds, that it needs to do so in order to avoid going into or is in a High Risk Operating State or an Emergency State</u></p> | <p>Agreed</p>   |

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| <p><u>(d) System Management considers, on reasonable grounds, that it needs to do so in order to avoid going into a High Risk Operating State or an Emergency State; or</u></p>  |   |   |
| <p><u>7A.1.12 System Management must provide all information required to be provided to the IMO under these Market Rules in a format, form and manner prescribed by the IMO after consultation with System Management.</u></p> | <p>1. In the wrong place, should be joined with 2.36.6 – IMO should not be able to unilaterally set the requirements. SM must have agreed to information transfer protocols to ensure it can deliver these requirements in a timely and cost effective manner, without impacting system security.</p> <p>2. Another example of this is 7.10.7 (a) where reporting of breaches timeline and form is not defined.</p> <p>3. Similarly the change to existing clause (2.36.6) relating to software systems is also of concern.</p> | <p>1. Agreed, the IMO has amended this clause and its location such that the clause now requires the IMO to maintain the current IMO-SM Systems interface document as a market procedure. This will make the systems decisions made by the IMO much more transparent (through the procedure change process), and will require each change to be justified as benefiting the market. The IMO has also moved the clause to clause 2.36.7 of the market rules, this has been moved here as clause 2.36 deals with information systems.</p> <p>2. Clause 7.10.7 (a) has been amended to specify that this information will be provided “in the time, form and manner prescribed by the IMO in the IMS Interface Document”, which is the</p> |

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|  |   | <p>procedure outlined in the response above.</p> <p>3. The IMO notes SM's concerns, however believes that the changes to the former clause 7A.1.12 (now cls 2.36.7) should reduce these concerns.</p>   |
| <p>6.11.1. A Market Participant submitting Resource Plan Submission data or Standing Resource Plan Submission data must <u>be in the form and manner prescribed and published by the IMO and include in the submission:</u></p> <p>(b) for each Scheduled Generator and Dispatchable Load registered by the Market Participant:</p> <p>ii. <del>[blank]for a Scheduled Generator, the intended times of synchronisation and de-synchronisation, expressed to the nearest minute, during the Trading Day;</del></p>                                     | <p>6.11.1(b)ii. SM needs to know the commitment/decommitment times as early as possible to ensure system security and no later than 1pm on the scheduling day. This must stay in.</p>   | <p>The IMO feels this sort of requirement better belongs in Market Procedures. However, the clause could be reinstated but the IMO notes that participants could be dispatched off their resource plans, and commitment plans altered, in the Balancing Market</p>                                      |
| <p><u>7.6.1B In seeking to meet the Dispatch Criteria System Management must, subject to clause 7.6.1C, issue Dispatch Instructions in the following, descending order of priority:</u></p> <p><u>(b) a Dispatch Instruction to a Balancing Facility Out of Merit but only to the next Facility or Facilities in the BMO that System Management reasonably considers best meets the Dispatch Criteria;</u></p> <p><u>(c) a Dispatch Instruction to any Balancing Facility Out of Merit, taking into account the Standing Data limitations; and</u></p> | <p>1.7.6.1B - What is the difference between b and c (out of merit). Out of Merit must be defined.</p> <p>2.The timing for Dispatch instructions is still an issue. Nothing in the rules indicates when System Management takes action.</p> | <p>1. Where SM cannot dispatch a Facility in the order in which it appears in the BMO because to do so risks a High Risks state, 7.6.1B(b) requires SM to consider dispatching the next Facility in the order prescribed by the BMO would meet the Dispatch Criteria, and, if so dispatch it but if</p> |

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|  |  | <p>not consider the next Facility in the BMO and so on. Clause 7.6.1B(c) allows SM to dispatch with complete disregard for the order indicated in the BMO but only if it is unable to dispatch in accordance with (b) without risking a High Risk state. The IMO also notes that Out of Merit is defined in chapter 11 of the draft rules.</p> <ol style="list-style-type: none"><li>2. Subject to point 3 below, the Rules require SM to issue DIs, in accordance with cls 7.6.1B and 7.6.1C, in a time which results in the Dispatch Criteria being met. The Rules give SM some flexibility on the exact timing as this should depend upon the specific circumstances and may vary on a case by case basis.</li><li>3. The Market Rules require SM to dispatch using the BMO (not the forecast BMO, unless no BMO has been provided) provided by the IMO no later than 30 minutes prior to the interval [MR 7A.3.5(b)]. As such SM may issue</li></ol> |
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|   |   | <p>dispatch instructions anywhere between half an hour prior to the start of the interval and the end of the interval.</p>  |
| <p><u>7.7.1A. A Dispatch Instruction issued in respect of a Balancing Facility must be consistent with the information in the BMO, including quantity and Ramp Rate Limits.</u></p> | <ol style="list-style-type: none"> <li>1. SM will often require dispatch at less than the Ramp Rate Limit. Clause 6.15.1(a) also uses Ramp Rate Limit for calculation of the theoretical energy schedule even if the dispatch is at a lower ramp rate which may not represent the actual Dispatch Instruction from System Management. Similarly Clause 6.15.1(c) is too restrictive in that it refers to Verve Energy’s Balancing Portfolio Maximum Ramp Rate.</li> <li>2. This clause is in conflict with 7.6.1B if the standing data is different to the Balancing BMO.</li> <li>3. This also restricts System Managements ability when operating under high or emergency state.</li> </ol> | <ol style="list-style-type: none"> <li>1. The clause in question states that SM must dispatch in “accordance with” the Ramp Rate Limit. The definition of the Ramp Rate Limit is drafted such that the Ramp Rate limits upwards and downwards ramping. E.g. if a facility submits 10WM/min SM may dispatch them upwards or downwards at 10MW/min or anywhere in between those limits</li> <li>2. Noted, the IMO requires SM to indicate specifically which standing data clauses it would consider when dispatching Out of Merit so that a list (excluding ramp rate) can be included</li> <li>3. Does the answer to issue 1. remedy this?</li> </ol> |

**7.10. Compliance with ~~Resource Plans and~~ Dispatch Instructions and Operating Instructions**

1. This whole section needs to be reworked. The action to be taken by System Management needs to be thought through. Compliance with Dispatch Instructions from System management is crucial for System Security.
2. The clause needs to include consideration of a facility that isn't complying – does it get removed from the BMO or at least moved to a non-participating status and be frozen in dispatch?
3. From a physical perspective when the facility is non-compliant, in some cases System Management may need to hold a facility at its current level. At other times an agreed path will need to be determined. See also SM comment on removal of Clause 7.3.2 when a facility's availability is reduced.
4. What conditions would determine this – is it one non-compliance, two, etc or some other conditions? The Rules must outline a clear requirement as to what conditions trigger the non-compliance & what action SM must take in response.
5. Deletion of exceptions under Clause 7.10.5(a) to 7.10.5(c) and 7.10.5A will result in potentially large volumes of reportable non-compliance during testing of facilities. To enable large volumes

1. Agreed that compliance with DIs is essential, as such the IMO is proposing that 7.10.7 be a civil penalty provision.
2. System Management would dispatch the next facility in the BMO taking account of the non-compliant facility. (as it now does not have a DI)
3. SM is able to do this as long as the reasons for doing so are reported. – However if a facility is unable to comply fully with a DI, they must change their BS for future intervals to match what they are able to do.
4. SM is required to report all non-compliance, where a facility is non-compliant by more than the facility tolerance
5. The IMO agrees that the level of reporting could be higher and notes that non compliance (for any reason) can have commercial implications for other participants (for constrained on/off costs, which market customers ultimately

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|  | <p>SM will need to generate this report automatically.</p> <ol style="list-style-type: none"> <li>6. Where power system security or reliability is under threat, follow up action by SM as per parts (a) and (b) of Clause 7.10.5 may not be feasible. The drafting will need to be changed to reflect this.</li> <li>7. System Management will need to take action in real time for “significant” non compliance with DI’s. Tolerances here may help define when SM should take action.</li> <li>8. In the timeframes available System Management will not always be able to contact all non performing participants to seek an explanation in real time.</li> <li>9. This section is also used by the IMO in determining Constrained on off payments. As this relates to commercial outcomes, Market participants may dispute the uses of SCADA to make this assessment.</li> <li>10. Dispatch compliance should also be handled with ex post monitoring by the IMO. System Management may be able to support any investigation with SCADA and operational data about the state of the system.</li> </ol> | <p>bear)</p> <ol style="list-style-type: none"> <li>6. Noted and the IMO has changed the clause accordingly</li> <li>7. Agreed, actions by SM in this clause are only required where the deviations are outside of the facility tolerance range</li> <li>8. Noted – see response to 6, also the IMO notes that the explanations may be requested ex-post</li> <li>9. Constrained on/off is not payable where the IMO determines that a DI has not been “adequately or appropriately” complied with [MR 6.16A.1(b)(i); 6.16A.2(b)(i); 6.16B.1(b)(i); and 6.16B.2(b)(i).</li> <li>10. Agreed, the IMO has seeks to ensure compliance with all Market Rules, however SM’s reporting requirements are also needed as SM will have the best knowledge of non-compliant behaviour to focus the IMO’s investigations.</li> </ol> |
| <p>7.10.7. Where the Market Participant does not comply with the request</p> | <ol style="list-style-type: none"> <li>1. In real time dispatch SM do a lot of work in short space of time and production timeframes for this report</li> </ol>   | <ol style="list-style-type: none"> <li>1. Noted, see response to 7A.1.12 above;</li> <li>2. The IMO will use the</li> </ol>   |

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| <p>referred to in clause 7.10.5, System Management:</p> <p><del>(a) — may issue directions to the Market Participant in respect of the output of that Registered Facility, without regard for the Dispatch Merit Order, with the objective of minimising the dispatch deviations of the Facility;</del></p> <p><del>(ba)</del> unless the deviation is within the Tolerance Range, must, <u>in the time and manner prescribed by the IMO</u>, report the failure to comply with the request referred to in clause 7.10.5, to the IMO. System Management must include in the report:</p> <ul style="list-style-type: none"> <li>i. the circumstances of the failure to comply with clause 7.10.1 and the request referred to in clause 7.10.5;</li> <li>ii. any explanation offered by the Market Participant as provided in accordance with clause 7.10.6A;</li> <li>iii. whether System Management issued instructions to the Registered Facilities of <del>the Electricity Generation Corporation-Verve Energy</del> or Registered Facilities covered by any <del>Balancing Support Contract or Ancillary Service Contract</del> or issued Dispatch Instructions <u>or Operating Instructions</u> to other Registered Facilities as a result of the failure; and</li> <li>iv. an assessment of whether the failure threatened Power System Security or Power System Reliability; and</li> </ul> <p><del>(eb)</del> if the deviation is within the Tolerance Range, may provide a report to the IMO containing the same information as specified in subclause (b).</p> | <p>are unclear.</p> <ol style="list-style-type: none"> <li>2. What is IMO going to use the required report for (other than the purposes in Clause 6.16B.1(i))? Does IMO have discretion about what use it will make of the report?</li> <li>3. How this data relates to Dispatch Advisories etc also needs to be considered.</li> </ol> | <p>report in its assessment of non-compliance with the Market Rules. The IMO must use the report for the functions conferred on it by the Rules.</p> <ol style="list-style-type: none"> <li>3. Noted, the IMO considers that the only relation is that Dispatch Advisories would need to be consistent with any report.</li> </ol> |
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| <p><u>7.7.3A. Each Operating Instruction must contain the following information: in clause 7.7.3, other than (d) and (e) plus 7.7.7 (h)</u></p> <p>(a) <u>the Registered Facility to which the Operating Instruction relates;</u></p> <p>(b) <u>the time the Operating Instruction was issued;</u></p> <p>(c) <u>the time at which the response to the Operating Instruction is required to commence (which must not be earlier than the time it was issued, except as contemplated by clause 7.7.7(b); and</u></p> <p>(d) <u>the required level of sent out generation or consumption which may be at a level to meet the requirements of a Network Control Service Contract, an Ancillary Service Contract, a Test or a Supplementary Capacity Contract.</u></p> | <ol style="list-style-type: none"> <li>1. Refers to an operating instruction which the glossary doesn't refer to – the operational test.</li> <li>2. SM should not define the MW for a facility under an RC Test as this is dependant on the temperature.</li> </ol> | <ol style="list-style-type: none"> <li>1. Not sure where this clause refers to Operational Test. The Glossary contains a definition of Operating Instruction.</li> <li>2. Agreed, the clause has been changed so that SM may specify the purpose of the OI and, where applicable, leave the quantity up to the participant.</li> </ol> |
| <p>3.5.3E - 3.4.5 – Not included in the Extract &amp; Proposed Amendments (8 August 2011)</p>  | <p>The Current Market rules require System Management to maintain Resource Plan levels when under a high or emergency state. Under CBM facilities may not wish to be returned to resource plans.</p>   | <p>Noted, the IMO has reviewed these clauses and amended them to be consistant with the Balancing Market Objectives.</p>   |
| <p><u>7A.2.4 A Balancing Submission must:</u></p> <p>(a) <u>be in the manner and form prescribed and published by the IMO;</u></p> <p>(b) <u>constitute a declaration by an Authorised Officer; and</u></p>  | <ol style="list-style-type: none"> <li>1. SM expect to see in rules definition around the size of balancing big quantities. This is for scheduled and non-scheduled generators.</li> <li>2. SM want one price for non-scheduled generators</li> </ol>                | <ol style="list-style-type: none"> <li>1. The IMO would like to understand the size limitations and it may be that any such restriction on tranche size would be subject to change as part of the transitional arrangements implemented at</li> </ol>  |

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| <p>(c) <u>have Balancing Price-Quantity Pair prices within the Price Cap.</u></p>  |  | <p>balancing market commencement.</p> <p>2. Noted, the IMO considers that the definition of Balancing Submission only provides the ability for non-scheduled facilities to submit one price, which will be re-enforced in the IMO prescribed form of Balancing Submission</p>  |
| <p>7.11.1. A Dispatch Advisory is a communication by System Management to Market Participants, Network Operators and the IMO that there has been, or is likely to be, an event that will require a significant deviation from Resource Plans, <u>from any of the quantities provided under clause 7A.3.16(b)</u> or will restrict communication between System Management and any of the Market Participants, Network Operators, or the IMO.</p> | <ol style="list-style-type: none"> <li>1. The clause as currently drafted refers to deviation from Resource Plan or deviation from forecasts IMO would use where it cannot supply Balancing Forecast information as per Clause 7A.3.16(a). However SM should only be issuing Dispatch Advisories where there has been or is likely to be Out of Merit dispatch or a restriction in communications.</li> <li>2. Another important aspect here is that there must be a clear definition of the meaning of Out of Merit.</li> <li>3. The current drafting of this rule may lead to DA being constantly in force. This combined with the requirements to report non – compliance indicate that it may be better to simple publish SM pre dispatch plan.</li> </ol> | <ol style="list-style-type: none"> <li>1. Agreed. The clause will be amended to delete “from any of the quantities provided under clause 7A.3.16(b)” and insert “dispatch of Facilities Out of Merit”.</li> <li>2. Noted – this is defined in the glossary</li> <li>3. Noted – the IMO expects that the changes in 1 will remedy this concern</li> </ol> |

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| <p><b><u>7A.4 Verve Energy – Stand Alone Facilities</u></b></p>  | <p>SM has a major issues with this set of clauses in that once a generator is taken out of Verve Energy’s portfolio there is no mechanism to revoke the decision thus enabling the facility to be put back into the portfolio if required (e.g. as a result of changes to AS).</p>   | <p>The IMO notes that SM will have the ability to reject any nomination by Verve Energy to move facilities to a standalone basis and should conduct the analysis it considers necessary before approving such a move. The IMO also notes that SM may enter into an ancillary service contract with any facility it wishes should AS requirements increase in the future beyond what the Verve portfolio can manage.</p> |
| <p>7.11.6. <u>Subject to 7.11.6AA a A</u> Dispatch Advisory must contain the following information:</p> <p>(a)</p> <p><u>(dA) where System Management is to release a Market Advisory under clause 7.11.5(g), details of the estimated variation from the quantities determined under clause 7A.5.13, reasons for the deviation from the BMO and all relevant information about the deviation.</u></p> | <ol style="list-style-type: none"> <li>1. This clause refers to 7A.5.13. Clause 7A.5.13 doesn’t exist in Version 3.0 of the Draft Amending Rules.</li> <li>2. It appears that SM would be required to provide differences between BMO and SM PDS amounts. A different method would need to be used as this is likely to be constantly in force.</li> <li>3. Also this clause makes it important what the definition of Out of Merit is in terms of the quantity of dispatch advisories that will be required.</li> </ol> | <ol style="list-style-type: none"> <li>1. Noted, this incorrect cross reference has been fixed</li> <li>2. Noted, the IMO expects the changes to clause 7.11.1 outlined above to remedy SMs concerns</li> <li>3. Noted, as above</li> </ol>   |
| <p><u>7A.1.8 If a Balancing Facility does not meet the Balancing Facility Requirements, the IMO may:</u></p>   | <ol style="list-style-type: none"> <li>1. Gives full discretion to IMO to set requirements.</li> <li>2. Also 7a.1.8(b)iv “other” could be anything and SM systems would</li> </ol>   | <ol style="list-style-type: none"> <li>1. The IMO disagrees that the IMO has “full discretion” to set the requirements and notes that the balancing facility</li> </ol>   |

iv. [other]

then be required to be adapted to meet these requirements. SM requires a set of criteria to be written into the rules.

3. Facilities that do not meet the Balancing Requirements cannot be considered Balancing Facilities. A new class needs to be created. This would allow sections of the rules to treat them differently.
4. The current rules provide no certainty as to the status of a facility or what conditions may be imposed on them.

requirements will be set in a market procedure and as such be subject to the procedure change process

2. Noted, the use of the word other was put in square brackets to indicate that these were draft rules and the list of what the procedure would cover has not been finalised yet – it does not imply that the market procedure would cover “other”. The IMO seeks input from interested parties, particularly SM, on any additional matters that should be considered to be listed as requirements.
3. The IMO believes that the Market Rules deal adequately with facilities which do not meet the balancing facility requirements and no such new class is required.
4. The IMO notes that the nature of these conditions will be specified in the Market Procedure and the status of a Facility will be publically available information.

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| <p><u>7A.1.5 The IMO must create Market Procedure procedures for Balancing Facility Requirements specifying technical and communication criteria that a Balancing Facility, or a type of Balancing Facility, must meet, including:</u></p>   | <p>SM is also required to produce a PSOP defining the technical facility quantity parameters for balancing requirements. As this part of the Rules refers to physical requirements for dispatch SM must be the ones required to produce this.</p>  | <p>The IMO believes that the Balancing Facilities Requirements are akin to a registration process not limited to technical matters and as such the IMO will request SM to provide information as to what it believes should be included in the list of balancing facility requirements.</p> |
| <p><u>7.7.5AA. System Management must determine the estimate in clause 6.15.1(b)(i) in accordance with the Power System Operating Procedure which may take into account the information provided under clause 7.7.5B to provide the estimate to the IMO as soon as reasonably practicable but in any event in time for settlements under chapter 9.</u></p>  | <p>2<sup>nd</sup> level - SM can be in non-compliance if a Participant fails to provide the information in 7.7.5b. In this case SM is automatically in breach. The clause should say that SM is not automatically in breach in this case.</p>  | <p>The IMO notes that SM will not be in breach if a participant does not provide the information, however SM will still need to provide an estimate to not be in breach. SM will be required to outline in the PSOP how such an estimate would be calculated in the procedure.</p>          |
| <p>7.7.6. Subject to clause 7.7.7:</p> <p>(a) and 7.7.7A System Management must issue a Dispatch Instruction <u>or an Operating Instruction</u> by communicating it to the relevant Market Participant <u>in accordance with the Power System Operational Procedure, which must be a method or methods which-by telephone</u>, allowing sufficient time for the Market Participant to confirm and to respond to that Dispatch Instruction; and</p> <p>(b) <del>when issued a Dispatch Instruction in accordance with (a)</del>, a Market Participant must confirm receipt of the Dispatch Instruction <u>and advise if it cannot fully comply with the Dispatch Instruction, such confirmations to be in the time and manner set out in the Power System Operation</u></p> | <p>SM needs confirmation from the MP that they can comply or cannot comply with a Dispatch Instruction. The message from the participant in response should include information to indicate a) message received and b) facility will or won't respond. No response within the required timeframe is deemed to mean that the facility will not respond.</p> | <p>The IMO notes that the effect of part (b) of this clause and clause 7.7.6A is that if an MP acknowledges receipt SM is to assume the MP can and will fully comply with the DI.</p>   |

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| <p><del>Procedure and as soon as practicable confirm its ability to comply with the Dispatch Instruction.</del></p>  |  |  |
| <p>6.17.9. The IMO must other than for <del>the Electricity Generation Corporation</del> <u>Verve Energy</u>, determine a Facility Dispatch Tolerance for each Scheduled Generator and Dispatchable Load, where this Facility Dispatch Tolerance is equal to the lesser of:</p> <ul style="list-style-type: none"> <li>(a) 3 MWh; and</li> <li>(b) the greater of: <ul style="list-style-type: none"> <li>i. 0.5 MWh; and</li> <li>ii. 3% of the Facility's: <ul style="list-style-type: none"> <li>1. sent out capacity in the case of a Scheduled Generator; or</li> <li>2. nominated maximum consumption quantity in the case of a Dispatchable Load,</li> </ul> </li> </ul> </li> </ul> <p>as set out in Standing Data <u>divided by 2 to be expressed as MWhs</u></p> | <p>How are the Facility Dispatch Tolerances in this clause used? Dispatch Tolerances for physical dispatch purposes are specified in Clause 7.10.5. Why are units of measure in MWh?</p>                     | <p>These tolerances are used in the calculation of Out of Merit Quantities in clauses 6.16A and 6.16B – they are in MWh because Out of Merit quantities are also in MWh.</p>   |
| <p>6.19.1. A Market Advisory is a notification by the IMO to Market Participants, Network Operators and System Management of an event that <u>the IMO reasonably considers will, or is likely to, significantly may</u> impact on market operations.</p>   | <p>The use of the words “the IMO reasonably considers” in this clause would require SM to check with IMO prior to it issuing a Dispatch Advisory. This would be unworkable for SM in many circumstances.</p> | <p>The IMO does not agree with this interpretation. The IMO notes that only the IMO issues Market Advisories and does not understand why SM interprets the Market Rules as requiring it to check with the IMO before issuing a Dispatch Advisory</p> |
| <p>7.3.2. <del>[Blank]System Management must, from the time it is notified of a Forced Outage or Consequential Outage in accordance with clause 3.21.4, take account of the Forced Outage or Consequential</del></p>   | <p>1. SM wants this clause reinstated and further amendments made. Removal of this clause removes the visibility that SM needs to have</p>   | <p>1. The IMO notes that this clause would require SM to issue a DI to Facilities which have not updated</p>   |

~~Outage in determining Dispatch Instructions~~

reasonable confidence of a generators ability to respond to a DI. It relates to SM comments on clause 7.10 above.

- 2. SM also requires that MPs make a real time declaration of available capacity for dispatch. This availability declaration is separate from the declaration of Forced Outage which is disincentivised by the overhanging capacity refund that results.
- 3. The removal of this clause also brings into question the process that SM must follow in issuing a DI where a facility is non-compliant with DIs.

their BS to reflect an outage and hence the facility is still in the BMO. The Balancing Market will not operate effectively or commercially if this was to remain the case. The clause has therefore been deleted and to enable clean drafting of SM's requirement to issue DIs in accordance with the BMO. It is up to the IMO to investigate participants who do not update their Balancing Submissions to reflect . The IMO has not changed any requirements for participants to notify SM of outages as and when outages occur. Further, the revised dispatch provisions in clauses 7.6 give SM the flexibility to issue DIs where SM reasonably has concerns about response to a DI. As such The IMO does not believe that it reduces SM's confidence in facilities' ability to respond to DIs.

- 2. Noted, the IMO notes that such declarations are made through balancing submissions.

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|   |   | <p>3. Noted but see comments above. The process should be –SM issues DI, Facility says no or does not respond in time, which is deemed to be a no, SM issues a different DI while facility updates BS.</p> |
| <p><del>7.7.7A(b)</del> <u>Clause 7.7.6 does not apply where the Dispatch-Operating</u> Instruction is deemed to have been issued in respect of a Registered Facility in accordance with an Ancillary Service Contract or Network Control Service Contract and relates to the automatic activation of the Ancillary Service or Network Control Service in which case System Management may communicate the Operating Instruction to the relevant Market Participant at a later time in accordance with the Ancillary Services contract or Network Control Service Contract.</p> | <p>System Management would require a similar confirmation to that provided in Clause 7.7.6 for an Operating Instruction (e.g. dispatch of a Network Control Service).</p> | <p>Agreed</p>  |

## 10 Market Information

1. IMO undertook at MAC 33 dated 10 November 2010 to prepare a Pre Rule Change Discussion Paper to present back to MAC for further discussion. To date this doesn't appear to have taken place. The inclusion of changes to the confidentiality provisions in the Draft Amending Rules lessens the opportunity for discussion as would have occurred had the Pre Rule Change Discussion Paper been first released.
2. For proper governance Clauses 10.2.1 and 10.2.2 should require that the IMO produce a Market Procedure outlining the process it must follow in determining the confidentiality or otherwise of information.

1. The IMO believes that new levels of transparent information are required under the new balancing market and as such these changes have been incorporated into the balancing market rule changes. The IMO notes that participants will be able to comment on the proposed changes as part of the rule change process. The IMO also notes that the changes to confidentiality clauses have been included in the draft rules since version 2.0 19 July 2011, and hence have been available for discussion and comment by the RDIWG on a number of occasions.
2. The IMO notes that given the varying nature of market related information and that a determination of confidentiality status other than public would require a rule change, the IMO believes that the current rule change process is adequate for determining confidentiality status and as such each determination of

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|  |   | confidentiality status will need to be conducted as part of the rule change associated with its creation.  |
| <u>7.11.6AA If any information that would otherwise be released under clauses 7.11.6(d), (dA), (e), (f) or (g) is Confidential, System Management must release that information to the IMO but ensure that the Market Advisory contains information of only a general or aggregate nature so that the information publically released is not Confidential.</u>   | The process for release of information to Participants which relates to forecast dispatch of facilities away from IMO forecasts by System Management for system reasons has not been determined with any clarity at this stage. It is a key element of the dispatch process which SM needs to understand. | Please see response to the issues associated with clause 7.11.1 above  |
| 7.13.1. System Management must provide the IMO with the following data for a Trading Day by noon on the first Business Day following the day on which the Trading Day ends:<br><br><u>(dB) the MWh quantity by which the Facility was instructed by System Management to increase its output or reduce its consumption under a Network Control Service Contract for each Trading Interval in the Trading Day by Facility</u> | Why is (dB) required in MWh?  | As part of RC_11_2010 – which removed most of the NCS rules from the Market rules - Western Power requires this value to pay for the NCS amount in accordance with the contract.   |
| <u>7B.1.4 System Management must, by [12:00 noon] on the Scheduling Day, provide the IMO with System Management's forecast of the LFAS Quantity for each Trading Interval in the next Trading Day, determined in accordance with the Power System Operation Procedure.</u>   | System Management requires both MW margin and total MW Ramp Rate Capability to be provided to meet its LFAS requirement. System Management requires MW Ramp Rate Capability to be included in both the LFAS quantities required as well as the LFAS quantities provided. See also Clause 7B.3.5.          | The IMO notes that the LFAS selection process will be a simple price based selection based on LFAS submissions. As such any requirement based on Ramp rate limits will need to be dealt with in the LFAS facility requirements. The IMO has amended the rules such that a participant will only be able to submit quantities into LFAS which |

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|--|---|--|
|  |   | are consistent with the “level” they meet the LFAS Facility Requirements |
| <p><u>7B.2.16 Where an LFAS Facility is selected under clauses 7B.3.5(b) or (c) to provide LFAS in a Trading Interval, then a Market Participant must, as soon as it becomes aware that the LFAS Facility is physically unable to provide some or all of the LFAS quantity for which it has been selected, advise the IMO in the manner and form prescribed by the IMO, whether the LFAS Facility is physically able to provide any LFAS in that Trading Interval and if so, the quantity, in MW</u></p> | <p>Why advise only IMO? System Management must be advised as the first priority any time a Market Participant is aware that its Load Following facility is unable to meet its LFAS obligations. This is a physical real-time situation with potential for serious power system security consequences if System Management is not advised immediately.</p> | <p>Agreed, clause added to chapter 7</p>                                 |

## Wholesale Electricity Market Rule Change Proposal Form

**Change Proposal No:** *[to be filled in by the IMO]*  
**Received date:** *[to be filled in by the IMO]*

**Change requested by:**

|                                 |  |
|---------------------------------|--|
| <b>Name:</b>                    |  |
| <b>Phone:</b>                   |  |
| <b>Fax:</b>                     |  |
| <b>Email:</b>                   |  |
| <b>Organisation:</b>            | <i>&lt;if applicable&gt;</i>             |
| <b>Address:</b>                 |  |
| <b>Date submitted:</b>          | <i>&lt;date submitted to the IMO&gt;</i> |
| <b>Urgency:</b>                 | <i>&lt;3-high, 2-medium, 1-low&gt;</i>   |
| <b>Change Proposal title:</b>   |  |
| <b>Market Rule(s) affected:</b> |  |

### Introduction

Market Rule 2.5.1 of the Wholesale Electricity Market Rules provides that any person (including the IMO) may make a Rule Change Proposal by completing a Rule Change Proposal Form that must be submitted to the Independent Market Operator.

This Change Proposal can be posted, faxed or emailed to:

**Independent Market Operator**  
 Attn: Manager Market Development and System Capacity  
 PO Box 7096  
 Cloisters Square, Perth, WA 6850  
 Fax: (08) 9254 4339  
 Email: [market.development@imowa.com.au](mailto:market.development@imowa.com.au)

The Independent Market Operator will assess the proposal and, within 5 Business Days of receiving this Rule Change Proposal form, will notify you whether the Rule Change Proposal will be further progressed.

In order for the proposal to be progressed, all fields below must be completed and the change proposal must explain how it will enable the Market Rules to better contribute to the achievement of the wholesale electricity market objectives. The objectives of the market are:

- (a) to promote the economically efficient, safe and reliable production and supply of electricity and electricity related services in the South West interconnected system;
- (b) to encourage competition among generators and retailers in the South West interconnected system, including by facilitating efficient entry of new competitors;
- (c) to avoid discrimination in that market against particular energy options and technologies, including sustainable energy options and technologies such as those that make use of renewable resources or that reduce overall greenhouse gas emissions;
- (d) to minimise the long-term cost of electricity supplied to customers from the South West interconnected system; and
- (e) to encourage the taking of measures to manage the amount of electricity used and when it is used.

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## **Details of the proposed Market Rule Change**

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### **1. Describe the concern with the existing Market Rules that is to be addressed by the proposed Market Rule change:**

#### **Purpose**

The purpose of this Rule Change proposal is to promote the economic efficiency of the Wholesale Electricity Market (WEM) by enabling greater Independent Power Producer (IPP) participation in the provision of balancing and the Load Following Ancillary Service (LFAS) via new market arrangements that will enable calculation of market-based prices for balancing and LFAS and providing greater transparency of market information to improve the efficient operation of the WEM.

#### **Background**

Since the WEM was established in 2006, the opportunity for Market Participants to be engaged in the provision of energy beyond the STEM has been limited. Verve Energy has had the role of default balancer, while the opportunity for IPPs to provide balancing energy has been restricted to occasions when Verve Energy runs out of non-liquid plant or when system security requirements cannot otherwise be maintained (as covered by clause 7.6 of the Market Rules).

In feedback gained during consultation undertaken by the Independent Market Operator (IMO), privately owned Market Participants expressed a need to improve the current balancing mechanism to allow the opportunity for IPPs to participate in the provision of balancing, while the current default balancer and others expressed concerns regarding the

existing balancing pricing method. The MAC was presented with a list of the issues of concern in relation to the WEM – and following a prioritisation procedure – improving the balancing mechanism was identified as the top priority in August 2009<sup>1</sup>.

The Verve Energy Review - commissioned by Government to assess why Verve Energy was in a loss-making position - critiqued the market similarly. It identified issues around the lack of competition in aspects of the market caused by the current market design.

### **Development of this Rule Change Proposal**

Options for IPPs to participate in balancing, including alternative market design options were subsequently investigated by the Market Design Review Team (MRDT<sup>2</sup>). The IMO presented a range of options to stakeholders at workshops in May and June 2010<sup>3</sup>. In August 2010<sup>4</sup>, the MAC's advice to the IMO Board was that initial development work should assume the retention of the current fundamental market design, evolving the design as far as practicable, prior to considering exploration of further market design options. The IMO Board agreed with the MAC's advice but noted that if sustainable solutions were not identified then it would ask for an assessment of more fundamental market re-design options.

The Rules Development Implementation Working Group (RDIWG<sup>5</sup>) was established in conjunction with the MAC in August 2010 to consider how to evolve the current market design to address a number of issues identified by the MAC. The specific design issues and problems to be addressed by the RDIWG are available on the IMO website<sup>6</sup>. This Rule Change proposal has been developed through the RDIWG.

### **Retention of the Fundamental WEM Design**

This rule change proposal retains the current market design and extends it as far as practical to facilitate IPP participation in balancing and LFAS through price based competition. This avoids the cost and complexity of fundamental design changes and is consistent with longer development term options. It also provides opportunities for Verve to separate facilities from its portfolio and bid them for balancing and LFAS on the same basis as IPPs.

Retention of the fundamental WEM design means:

- Bilateral contracts between Generators and Market Customers as the basis for commercial and physical participation in the WEM.
- Opportunities for Market Participants to adjust their bilateral positions through the STEM.
- Continuance of the System Management / Verve Energy relationship (portfolio based, gross dispatch).

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<sup>1</sup> Refer to the Market Rules Evolution Plan: [www.imowa.com.au/market-rules](http://www.imowa.com.au/market-rules)

<sup>3</sup> [http://www.imowa.com.au/design\\_review](http://www.imowa.com.au/design_review)

<sup>4</sup> MAC Meeting 11 August 2010.

<sup>5</sup> <http://www.imowa.com.au/RDIWG>.

<sup>6</sup> [http://www.imowa.com.au/f139.1323967/RDIWG\\_market\\_Design\\_issues\\_problems.pdf](http://www.imowa.com.au/f139.1323967/RDIWG_market_Design_issues_problems.pdf)

- Energy supplied in the market determined by:
  - IPPs operating their facilities in accordance with Resource Plans, (subject to net dispatch by System Management); and
  - Verve Energy being dispatched on a portfolio basis.
- Verve Energy continuing to be the default provider of Ancillary Services (AS).

### **Overview of Proposed Arrangements**

Under the proposed arrangements, Verve Energy will remain the default provider of ancillary services and System Management will continue to dispatch the Verve Energy portfolio as a service to Verve Energy. However, under the proposal, IPPs will be able to submit price based bids to compete with the Verve portfolio in balancing and LFAS markets. Following the existing STEM process:

- IPPs will submit Resource Plans, as now but indicating MW levels and ramping rates at which they will operate their scheduled generation facilities to meet their contractual positions.
- Verve Energy will submit a series of price-quantity pairs for each Trading Interval for its available capacity. I.e. a Portfolio Supply Curve (PSC) for each interval. PSCs will be along the lines of Verve's current STEM submissions but expressed in MW for dispatch purposes.
- IPPs will make facility Balancing Submissions for each Trading Interval indicating the MW quantities and prices at which they are prepared to be dispatched above or below the facility Resource Plan. It will be a requirement that all available capacity be included in balancing submissions, consistent with current requirements but with flexibility to split capacity across multiple price-quantity pairs.
- Verve Energy will be able to separate facilities from its portfolio, subject to IMO approval taking account of System Management's views, and operate them on a standalone basis, submitting facility resource plans and balancing submissions on the same basis as IPPs.
- Verve Energy will be required to make LFAS submissions covering the full quantity of LFAS required by System Management. IPPs, and Verve for standalone facilities, may make facility LFAS up and or/down submissions. LFAS submissions will indicate MW up and down capability and associated enablement prices.
- The IMO will rank LFAS submissions in price order and select for service the necessary quantity to meet overall LFAS requirements specified by System Management.
- The IMO will create a Balancing Merit Order, ranking balancing submission quantities in price order. In forming the Balancing Merit Order, the IMO will take into account any capacity affected by the selection of LFAS.
- The IMO will provide the Balancing Merit Order to System Management (without prices) for planning and dispatch purposes.

- The IMO will prepare forecasts of expected IPP facility/VSAF<sup>7</sup> and Verve Portfolio dispatch and balancing market prices for each Trading Interval, and publish forecast quantities to the relevant Participant and market prices to all Participants. LFAS quantities and prices will be included in forecasts on the same basis.
- System Management will review forecast generation dispatch and the Balancing Merit Order, plan for expected dispatch and prepare and update the Verve Dispatch Plan for meeting expected Verve Portfolio quantities and LFAS requirements.
- Participants will have opportunities to review and update their balancing and LFAS submissions in light of market forecasts and their facility/ fuel status.
- The above cycle will iterate towards dispatch until gate closure when submissions are locked in, except for bona fide physical reasons (e.g. forced outages).
- In each Trading Interval, System Management will instruct accepted LFAS enablement MW bands and dispatch IPP/VSAF facilities and the Verve Portfolio in accordance with the Balancing Merit Order unless it is necessary to deviate in order to ensure system security requirements are met.
- The Balancing Price will be set from the final Balancing Merit Order and actual generation requirements. I.e. an ex post marginal price. Upward and downward LFAS prices will be set at the price of the marginal enablement tranches instructed by System Management.
- Variations from Net Contract Positions will be settled at the Balancing Price. There will be no DDAP/UDAP adjustments for IPP balancing payments so that IPPs will face actual balancing costs. Deviations as a result of not following dispatch instructions will be subject to sanction through the compliance regime.
- Participants will be eligible for constrained on or off compensation where quantity in a balancing submission is dispatched out of merit. E.g. if quantity in a balancing submission with a price higher than the balancing price has been dispatched by System Management, the participant will be eligible for constrained on compensation at the price difference for the quantity involved.

A more detailed description of the proposal can be found in Appendix One.

### **Key areas of focus with the new arrangements**

This rule change proposal addresses a number of concerns about the existing arrangements. Particular areas of focus are as follows.

#### **Key focus 1: Increasing IPP Participation in Balancing**

This Rule Change proposal enables all participants to make price based submissions for balancing, update submissions in response to market forecasts and expected dispatch, and be dispatched with certainty about payments. It also provides opportunities for Verve to move towards facility based bidding over time and be treated on the same basis as IPP facilities.

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<sup>7</sup> Verve Standalone Facility.

A range of options to facilitate increased IPP participation in balancing within the current hybrid market design were considered by the MRDT and subsequently shared with the RDIWG. This included contractual alternatives such as a second STEM run or multiple STEM style auctions. However, there was a strong preference for increasing participation in balancing through price based physical dispatch of balancing resources. A number of options were also considered and dismissed in favour of the proposed design. This included the possibility of the market facilitating balancing support contracts (BSCs) - given that the current Rules provide for System Management or Verve to enter BSC but none have been agreed – and options suggested by a participant and by System Management.

### **Key focus 2: Consistency between the balancing price and dispatch**

At present, the balancing price (MCAP) for each Trading Interval is established from participants' STEM supply submissions, ranked in price order, and the actual level of supply and demand in the interval. There are a number of limitations with this approach. For example:

- The pricing curve includes all STEM supply submissions whereas at present Verve is the default balancer and IPPs are generally not dispatched off resource plans. MCAP is therefore often inconsistent with dispatch and the cost of/ need for balancing.
- The aggregate quantity used to calculate MCAP (i.e. to determine the intersection with the MCAP price curve) includes some quantities which are not part of STEM submissions. This tends to result in MCAP being higher than otherwise.

The above effects have been investigated in some detail. For example, see RDIWG meeting 5 papers<sup>8</sup>.

The proposal addresses these issues by retaining the concept of marginal pricing but with IPPs able to compete on price for dispatch and the market setting a clean price reflecting actual dispatch outcomes to the extent practical. The methodology is explained in more detail in Appendix One.

A clean balancing price will more accurately signal the need for and value of balancing support/ supply flexibility. This will assist in addressing increasing concerns over the need for increasing flexibility, for example overnight in low load/ high wind scenarios, and in providing longer term signals to generation investors about the need for and value of flexibility in the WEM.

Where differences between the balancing price and actual dispatch do occur, participants will not be financially disadvantaged if they were following dispatch instructions. This will be achieved through constrained on or off compensation. This can occur if a participant has been dispatched out of merit to satisfy system security requirements or because pricing is set on a half hourly basis and dispatch is a real time activity.

Constrained on and off compensation is explained in more detail in Appendix One.

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<sup>8</sup> [http://www.imowa.com.au/f139.1324064/Combined\\_RDIWG\\_Mtg\\_5\\_Papers.pdf](http://www.imowa.com.au/f139.1324064/Combined_RDIWG_Mtg_5_Papers.pdf)

### **Key focus 3: The role of DDAP and UDAP**

DDAP and UDAP penalties are intended to incentivise compliance with Resource Plans. However, this means that participants are not exposed to actual balancing costs (even if a clean balancing price is introduced) and are exposed to the same penalties whether the balancing requirement arose through unavoidable circumstances or inappropriate behaviour. Incentives to avoid the risk of DDAP and UDAP penalties can also create distortions through conservative behaviour (for example, bringing a facility into service before it is actually needed).

Under the proposal, removal of DDAP and UDAP and calculation of a clean price will mean that participants face the marginal costs of balancing and it will be the responsibility of the compliance regime to target inappropriate behaviour with sanctions determined on a case by case basis.

### **Key focus 4: LFAS Market**

Full LFAS requirements are currently provided by Verve under an administered pricing regime<sup>9</sup>. The proposal provides opportunities for IPPs to compete with Verve to supply LFAS requirements and sets market based LFAS prices.

As for balancing, participants will be able to revise LFAS submissions in response to market forecasts/ conditions, trading off balancing and LFAS costs where capacity is mutually exclusive and adjusting relevant submissions accordingly. Final balancing submissions are able to be made after LFAS selections. Providing forecasts and flexibility to participants means that the LFAS selection process will be relatively straightforward, based on LFAS prices only, compared to market-based co-optimisation methods which select balancing and LFAS simultaneously (although in time more complex methods/ systems could be introduced).

Verve will remain the default LFAS provider as it is likely, at least initially, that alternatives will be limited relative to overall requirements. As default provider Verve will also submit a price for providing back-up LFAS in the event of a facility failure.

### **Key focus 5: Flexibility/ efficiency**

The current MCAP pricing curve is established approximately 24 hours before the Trading Day starts and 48 hours before it ends. Uncertainties over this time frame compound the inconsistencies between pricing and dispatch noted above. For example, Verve submits its supply curve before participants' net contract positions and IPP Resource Plans are confirmed; demand and intermittent generation can vary significantly from day-ahead forecasts; forced outages can occur.

Further, opportunities to respond to changing market requirements (e.g. due to changing demand and wind forecasts, forced outages etc) and/ or vary from contractual positions where economic are currently limited.

STEM is a one shot contractual process. Its efficiency is limited because participants risk being locked into contractual positions which they may not be able to match efficiently or

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<sup>9</sup> Margin peak and off peak pricing based on estimated opportunity costs.

even feasibly with Resource Plans. E.g. due to risks of being cleared, or not, in consecutive Dispatch Intervals.

The proposal addresses these issues by:

- Breaking the direct link between STEM submissions and balancing/ dispatch (except for settlement quantities);
- Enabling all generators to participate in the balancing and LFAS markets and to make initial submissions after STEM outcomes are known;
- Providing regular balancing and LFAS market forecasts to participants; and
- Enabling participants to update their submissions in response to market forecasts and/or changes in their own circumstances, including interactions between balancing and LFAS selections.

#### **Key focus 6: Surveillance and Compliance**

As noted above in relation to the removal of DDAP and UDAP, there will be a stronger emphasis on compliance monitoring to detect and sanction inappropriate behaviour. This philosophy is reflected more generally in the proposal and will require a more proactive approach to compliance. Accordingly, the IMO plans to expand its compliance team, with a greater emphasis on data analysis including automated monitoring of participant activity.

An important focus of compliance monitoring will be to identify behaviour that attempts to manipulate the accuracy of the market forecasts which participants will rely on to make decisions. For example, IMO scrutiny could be triggered by significant changes in bidding behaviour, especially closer to gate closure, late declarations of forced outages or inability to follow dispatch instructions.

The new rules impose obligations of good faith on participants, and the IMO will seek to have these, and other key provisions, added to the list of civil penalty provisions in the regulations

#### **Key focus 7: Generation component of net STEM shortfall**

At present, a facility which operates below its Resource Plan level by more than its dispatch tolerance is exposed to Net STEM Shortfall payments for any shortfall relative to its full accredited capacity irrespective of the cause. This has the potential to overstate the impact and/or distort participant decisions. On the other hand, it is important to know that capacity receiving credits is actually available if needed.

Under the proposal, this 'generation level' component of the Net STEM Shortfall calculation will be removed. Instead, a facility may be called on to demonstrate it can meet its capacity obligations and, if it fails, the participant will forego capacity credits until it can achieve an acceptable test. In this regard, the proposal utilises existing provisions for Reserve Capacity Tests, avoiding the cost and complexity of a dedicated operational testing regime, but modified to provide greater flexibility than the current six monthly Reserve Capacity provisions.

**Key focus 8: System Management's authority**

The proposal preserves System Management's authority for coordinating system security, including intervention if necessary to avoid the system entering a high risk state. All capacity will continue to be available to System Management for dispatch but with increased flexibility through IPP opportunities for economic dispatch through inclusion in the normal Balancing Merit Order. Participants' ability to update balancing submissions will however be limited initially by a facility Gate Closure of a greater number of hours.

**Key focus: Confidentiality provisions**

Given the increasing importance of market-related information to the operation of the balancing market in particular, the opportunity has also been taken to propose a rationalisation of the current confidentiality-related treatment of market information in Chapter 10 of the Market Rules.

Currently there are several classifications in relation to the treatment of information and its confidentiality. New rules propose to simplify these classifications and to establish a default preference for the transparency of information unless the IMO – following consultation – deems confidentiality in a particular circumstance is justified. New rules are proposed to set out the IMO's decision making rights, its obligation to consult before deeming certain information to be confidential, the rights of those who have access to the confidential information, and to specify certain information that must be made available. Better transparency of information will be a critical factor in the efficient operation of the balancing market in particular but will also provide benefits to the operation of the STEM and LFAS markets.

**Supplementary focus: Additional changes**

Given the extent of the changes proposed to the Market Rules, the opportunity has also been taken to:

- i. Address typographical and spelling errors identified in the course of reviewing the Market Rules for the balancing and LFAS market and new confidentiality arrangements;
- ii. Adopt a more output/outcome based approach in the drafting of the new Market Rules to remove unnecessary prescription and complexity and encourage alternatives/innovation where this is appropriate.

Both improve the effectiveness and efficiency of the operation of the Market Rules.

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**2. Explain the reason for the degree of urgency:**

The IMO proposes that the Rule Change Proposal be progressed via the Standard Rule Change Process with two rounds of consultation before preparing a final Rule Change Report.

**3. Provide any proposed specific changes to particular Rules:** (for clarity, please use the current wording of the Rules and place a ~~strikethrough~~ where words are deleted and underline words added)

See the Attachment.

**4. Describe how the proposed Market Rule changes would allow the Market Rules to better address the Wholesale Market Objectives:**

The IMO considers the changes proposed will have the following impact on the Wholesale Market Objectives:

| Impact  | Market Objectives |
|---|-------------------|
| Allow the Market Rules to better address the objective. | a, b, c, d        |
| Consistent with objective.                              | e                 |
| Inconsistent with objective.                            |                   |

**Impact on Market 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 new balancing and LFAS market proposal will enable more facilities to be made available for balancing and LFAS, reducing overall dispatch costs and enhancing system flexibility and security.

The balancing and LFAS market proposal preserves System Management’s rights and obligations in relation to system security, including intervention if necessary to avoid the system entering a high risk state.

The new confidentiality provisions will improve the effectiveness of the operation of the balancing, LFAS and STEM markets by providing greater information to MPs upon which they can prepare bids, for example, than would otherwise be the case.

**Impact on Market Objective (b)**

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

The balancing and LFAS market proposal will enable IPPs to compete with Verve in the balancing and LFAS markets.

The balancing and LFAS market proposal is likely to make the overall market more attractive to new entrants through:

- More opportunity to participate in balancing and LFAS, without financial disadvantage if dispatched out of merit (for any reason).
- Increased ability to manage exposures to balancing and potentially inefficient STEM/ Resource Plan outcomes.

The balancing and LFAS market proposal and new confidentiality provisions will also likely make the overall market more attractive to new entrants through increased transparency and availability of market information.

By more accurately signalling the need for and value of balancing, the proposal should promote efficient investment (e.g. in relation to the need for and value of flexibility).

#### **Impact on Market Objective (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;*

The balancing and LFAS market proposal and new confidentiality arrangements will create a more level playing field for all generation options and technologies by more clearly signalling the value and cost of balancing and LFAS and system flexibility requirements.

#### **Impact on Market Objective (d)**

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

By increasing transparency of information and competition between generators in the balancing and LFAS markets, the balancing and LFAS market proposal and new confidentiality arrangements are likely to drive down balancing and LFAS costs in the short to medium term.

In the longer term, clean cost reflective prices should help to minimise overall system costs by encouraging participants to factor the value of flexibility and/or their actual cost impacts into their investment decisions.

## Impact on Market Objective (e)

*to encourage the taking of measures to manage the amount of electricity used and when it is used.*

The balancing and LFAS market proposal and new confidentiality arrangements may indirectly assist this Market Objective.

Providing regular market price forecasts to market customers may facilitate more active demand side response.

To the extent this occurs, more cost reflective balancing prices will lead to more efficient trade-offs.

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

The IMO commissioned the Sapere Research Group (Sapere) to undertake an independent study of the likely costs and benefits of the balancing market proposal earlier this year. The study, led by Kieran Murray, quantified a small number of direct benefits of the proposal and compared these benefits with the estimated costs of implementing and operating the proposed arrangements. Estimates were based on optimistic, medium and pessimistic scenarios and were tested for sensitivity to variations in key assumptions. Personnel and systems cost estimates, establishment and ongoing, for all stakeholders were established in consultation with the IMO, System Management and participants.

Key conclusions from the study were that:

- The proposal would yield net benefits to the economy ranging from \$16.8m in the optimistic scenario to \$ 2.1m in the pessimistic scenario;

**Table 1: Summary of Sapere Benefit-Cost Study**

|                 | High     | Medium   | Low      |
|-----------------|----------|----------|----------|
| Direct Benefits | \$32.48m | \$27.92m | \$24.92m |
| Costs           | \$15.72m | \$19.27m | \$22.83m |
| Net Benefits    | \$16.76m | \$8.65m  | \$2.09m  |
| Payback         | 2.07     | 1.45     | 1.09     |

- Net positive benefits would occur under all but extreme scenarios (e.g. reducing the study horizon from 7 to just 3 years or increasing the discount rate to 33%);
- Actual net benefits are likely to be greater, and may be more significant, than the direct benefits quantified, for example over a longer time-frame and/or indirect benefits (e.g. investment incentives, confidence levels, longer-term transitional impacts and price signalling impacts).

The full Sapere report is available at [http://www.imowa.com.au/MAC\\_37](http://www.imowa.com.au/MAC_37)



## Appendix One: Detailed Description of the Proposal

Insert 12 boxes document

## Appendix Two: Summary Table of Rule Changes

Insert summary table on individual rule changes