



INDEPENDENT
MARKET
OPERATOR

The IMO's decision: Revised PSOP: Monitoring and Reporting Protocol

Ref: PPCL0024

Date: 1 August 2013

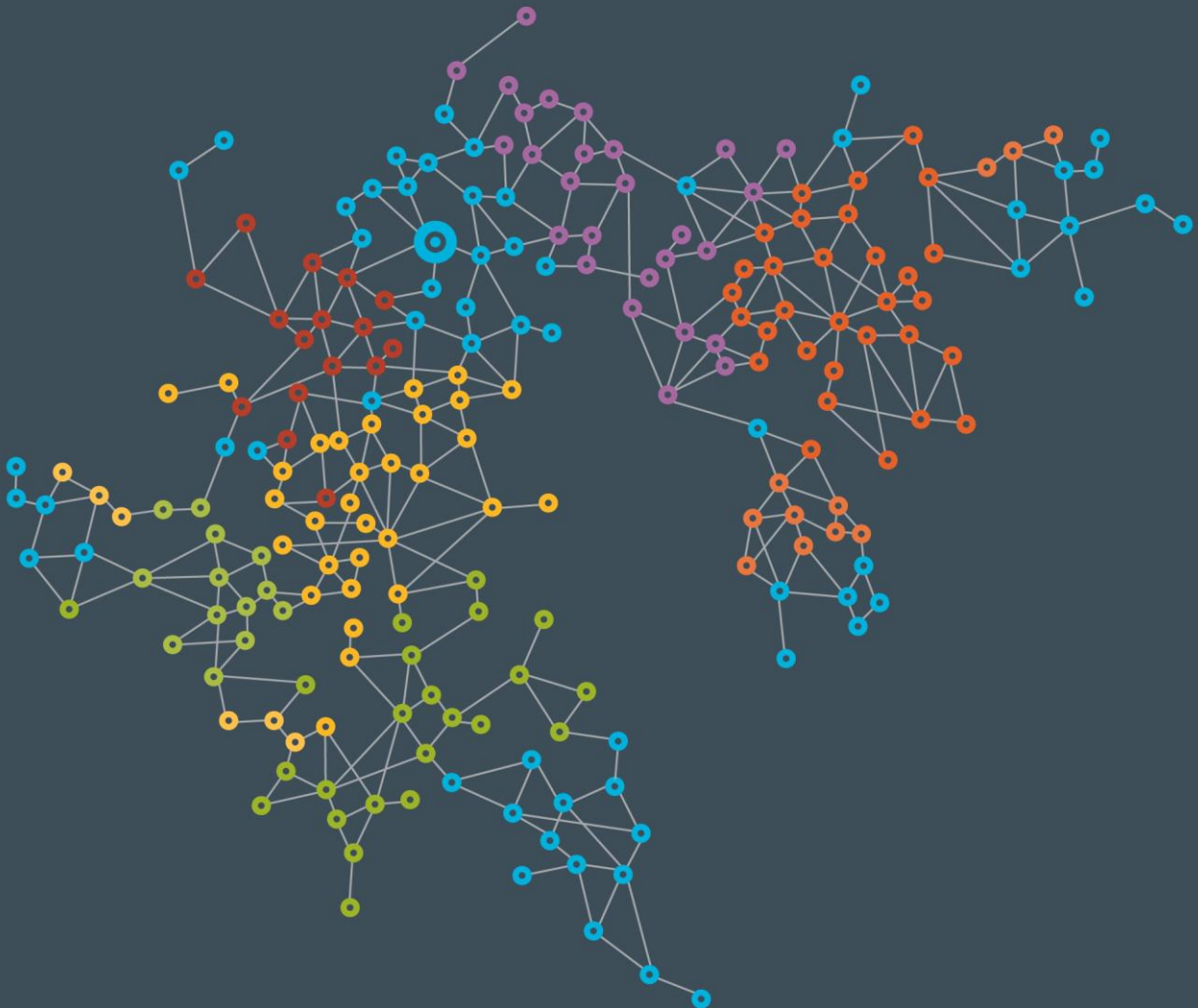


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Executive Summary

Procedure Change Proposal

In its proposal, System Management sought to amend the Power System Operation Procedure: Monitoring and Reporting Protocol (PSOP) to:

- amend the definition of the Tolerance Range formula in section 4.1 to align with the definition of the Tolerance Range published on the Market Web Site;
- clarify the process of determining a Tolerance Range and a Facility Tolerance Range in Section 4.3; and
- remove the reference to clause 7.10.6 of the Wholesale Electricity Market Rules in Appendix 1, to reflect the proposed deletion of clause 7.10.6 by the Rule Change Proposal: Clarification of Dispatch Compliance Obligations (RC_2013_01).

Consultation

The proposed amended PSOP was distributed to members of the System Procedure Change and Development Working Group (Working Group) for out of session comment between 25 February 2013 and 5 March 2013. One member responded to confirm that it did not consider a meeting of the Working Group was needed to discuss the proposal.

The IMO suggested that System Management consider removing the formula from the PSOP altogether and amending Appendix 1 to reflect the changes proposed in RC_2013_01. System Management amended the proposed amended PSOP to reflect the latter suggestion, but retained the formula in the PSOP.

The Procedure Change Proposal was published on 20 March 2013 and the public consultation period was held between 21 March 2013 and 19 April 2013. During this time System Management received one submission from Alinta Energy, which raised a number of issues around the determination and use of Tolerance Ranges and Facility Tolerance Ranges.

The Procedure Change Report was submitted by System Management to the IMO on 15 May 2013 and published on the Market Web Site on 22 May 2013.

The IMO advised System Management of its concerns about two additional changes made to the proposed amended PSOP after the end of the public consultation period. Following discussions with the IMO, System Management elected to hold an additional round of informal consultation between 17 June 2013 and 1 July 2013.

System Management received two submissions during the further consultation period, one from Community Electricity supporting the amended proposal and one from Alinta Energy, which provided a clarification of its previous submission and raised further concerns about the amended proposal.

The IMO's Assessment

The IMO considers that overall the proposed amended PSOP is inconsistent with the Wholesale Market Objectives, and in particular is inconsistent with Wholesale Market Objectives (b) and (c).

The IMO's Decision

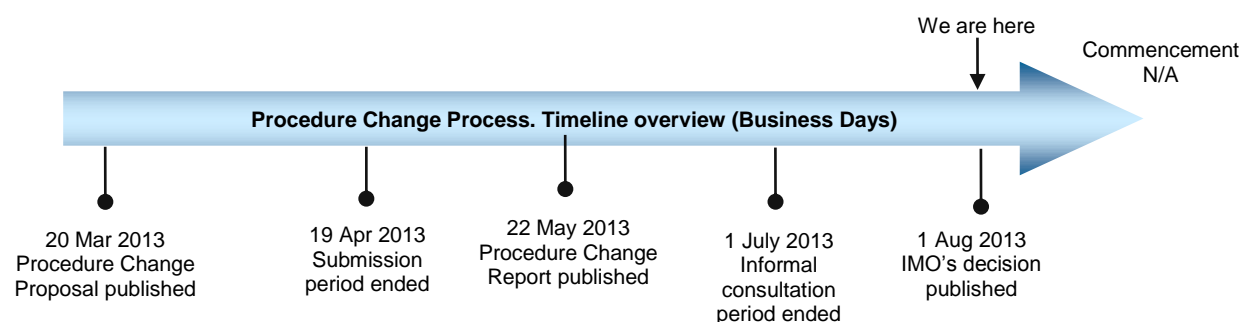
The IMO's decision is to reject the proposed amendment to the PSOP: Monitoring and Reporting Protocol.

1. Introduction

On 20 March 2013, the Independent Market Operator (IMO) published a Procedure Change Proposal from System Management regarding the proposed amended Power System Operation Procedure: Monitoring and Reporting Protocol (PSOP).

The proposal has been progressed according to the Procedure Change Process under section 2.10 of the Wholesale Electricity Market Rules (Market Rules). In accordance with clause 2.10.17, the IMO extended the timeframe for making and publishing its decision on the Procedure Change Proposal. Further details of the extensions are available on the Market Web Site: <http://www.imowa.com.au/PPCL0024>.

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



2. Proposed Amendments

2.1 Background

Under clause 2.13.6D of the Market Rules, System Management may determine the Tolerance Range to apply to all Facilities for the purposes of System Management's reporting of alleged breaches of clause 7.10.1 (failure to comply with a Dispatch Instruction) and clause 3.18.2(f) (failure to report a Forced Outage to the IMO in accordance with section 3.21) under clause 2.13.6A.

Under clause 2.13.6E, System Management may determine a Facility Tolerance Range to apply to a specific generation Facility, which will apply for that Facility in place of the Tolerance Range determined under clause 2.13.6D.

Since the commencement of the Amending Rules for the Rule Change Proposal: Alignment of Settlement Tolerances and Tolerance Ranges (RC_2012_16) on 1 January 2013, Tolerance Ranges have also been used in the calculation of Settlement Tolerances under clause 6.17.9.

Both the Tolerance Range and any Facility Tolerance Ranges determined by System Management must be published on the Market Web Site and are subject to an annual review process.

Prior to the start of the competitive Balancing Market System Management, under clause 2.13.6D, determined the Tolerance Range to apply to Scheduled Generators from 1 July 2012 as the

following formula:

$$\text{Tolerance Range} = (+/-) \text{MAX} (6, \text{MIN} [5\% \text{NPC}, 4 * \text{ROC}])$$

where:

NPC: Name plate capacity of the generator, expressed in MW (Market Rules Appendix 1(b)(ii))

ROC: Rate of Change or Ramp Rate of a Unit per minute (Market Rules Appendix 1(b)(v))

The formula was published on the Market Web Site as required under clause 2.13.6D¹. System Management completed its first annual review of the Tolerance Range in June 2013 and decided to retain the same formula for the year commencing 1 July 2013. No Facility Tolerance Ranges have been determined by System Management to date.

Under clause 2.13.6K, System Management must document the procedure for determining and reviewing the annual Tolerance Range and any Facility Tolerance Ranges in the Power System Operating Procedure.

2.2 Summary of the Proposal

As part of the Procedure Change Proposal: Replaced PSOPs: Competitive Balancing and Load Following Market 3 (PPCL0023), System Management amended the PSOP to include the Tolerance Range formula it had determined to apply from 1 July 2012. The amended PSOP commenced on 1 July 2012.

The Tolerance Range formula set out in the PSOP defines ROC as “ROC is the currently dispatched ramp rate of a Scheduled Generator in a particular Trading Interval, expressed in MW per minute”. Applying this ROC definition would result in a dynamic Tolerance Range that potentially changes each Trading Interval. This was an unintended oversight by System Management.

In its proposal, System Management proposed to correct the ROC definition to align it with the definition published on the Market Web Site, “with the intention that it reflects the fairly static² Tolerance Range that is currently applied, subject to annual review”.

System Management also proposed amendments to the PSOP to:

- clarify the process of determining a Tolerance Range and a Facility Tolerance Range in Section 4.3; and
- remove the reference to clause 7.10.6 in Appendix 1, to reflect the proposed deletion of clause 7.10.6 by the Rule Change Proposal: Clarification of Dispatch Compliance Obligations (RC_2013_01)³.

¹ See http://www.imowa.com.au/facility_tolerance_range.

² Note the Tolerance Range value for a particular Scheduled Generator may change during the year if there is a change to its relevant Standing Data.

³ For further details see: http://www.imowa.com.au/RC_2013_01. The Amending Rules for RC_2013_01 commenced on 1 July 2013.

3. Consultation

3.1 Market Advisory Committee or Working Group

The Market Advisory Committee (MAC) has delegated the role of considering System Management Procedure Change Proposals to the System Management Procedure Change and Development Working Group (Working Group), and accordingly the MAC has not reviewed the Procedure Change Proposal. However, in accordance with clauses 2.10.8 and 2.10.9 the IMO notified the MAC once the Procedure Change Proposal had been published and noted that it would convene a meeting of the MAC to discuss the proposal should two or more members request it. No MAC member contacted the IMO in this regard.

System Management distributed the proposed amended PSOP to the Working Group for out of session comment on 25 February 2013. System Management also sought feedback on whether members considered a meeting of the Working Group was required to discuss the proposal before its formal submission into the Procedure Change Process. Feedback was received from one member of the Working Group, who considered that a meeting to discuss the proposal was not required.

In feedback provided to System Management, the IMO:

- suggested that System Management may wish to remove the Tolerance Range formula from the PSOP altogether, noting that the Market Rules only require System Management to provide the formula to the IMO for publication on the Market Web Site, and so it did not need to be included in the PSOP; and
- noted that it was about to submit a fast track Rule Change Proposal⁴ to correct a manifest error in clause 7.10.6A, which included the proposed deletion of clause 7.10.6, and that as a result changes might be required to Appendix 1 of the PSOP, in which both clauses were listed.

In response, System Management amended the Procedure Change Proposal to remove the reference to clause 7.10.6 from the proposed amended PSOP, but decided to retain the formula in section 4.1.

3.2 Submissions received during public consultation period

The public consultation period was held between 21 March 2013 and 19 April 2013. During this time System Management received one submission from Alinta Energy (Alinta).

In its submission, Alinta suggested that it is unclear why a static Tolerance Range is preferred or how it would better achieve the Wholesale Market Objectives relative to the current dynamic Tolerance Range contained in the PSOP. Alinta requested that evidence of the benefits (and associated costs) of using a static Tolerance Range, as opposed to a dynamic Tolerance Range, be presented and consulted on with industry prior to any further changes being made. Alinta suggested that this should be done as part of System Management's review of the Tolerance Ranges under clause 2.13.6G.

⁴ For further details see: http://www.imowa.com.au/RC_2013_01

Alinta supported the removal of the requirements for a separate consultation process on the Tolerance Ranges as outlined in section 4.2 of the PSOP, given the inclusion of the formula in the PSOP (which is therefore subject to the Procedure Change Process if amendments are proposed). Alinta however noted that a separate consultation process for a Facility Tolerance Range is still required to be outlined in the PSOP.

Alinta also raised a number of wider concerns about Tolerance Ranges, including:

- concerns about a lack of clarity in the Market Rules around a Market Participant's requirement to be compliant with a Dispatch Instruction, which Alinta suggested may be due to the recent application of the concept of a Tolerance Range or Facility Tolerance Range (as applicable) to a Facility's compliance under the Market Rules;
- uncertainty about whether the current Tolerance Ranges are appropriate given their revised application to participants' compliance; and
- uncertainty about whether the current Tolerance Ranges should apply for Non-Scheduled Generators and Demand Side Management.

Alinta considered that rather than considering these wider conceptual issues together and progressing a comprehensive solution, multiple rule and procedure changes had been progressed to address related issues, which had resulted in an inefficient use of industry resources and ultimately meant the underlying deficiencies in the market design had not been addressed.

3.3 Submissions received during the further consultation period

The Procedure Change Report for this Procedure Change Proposal was submitted by System Management to the IMO on 15 May 2013 and published on the Market Web Site on 22 May 2013.

Following a review of the Procedure Change Report and the revised proposed amended PSOP, the IMO advised System Management of its concerns about two significant additional changes which had been made to the proposed amended PSOP following the consultation period:

- the removal of the requirement on System Management to conduct a consultation process as part of its annual review of the Tolerance Range, unless it decides to amend the Tolerance Range (in which case the consultation would be undertaken as part of the Procedure Change Process); and
- the removal of the requirement on System Management to conduct a consultation process as part of its annual review of a Facility Tolerance Range, unless it decides to amend the Facility Tolerance Range.

The IMO also raised concerns about the proposal made in the Procedure Change Report to no longer adjust the Tolerance Range of a Scheduled Generator to reflect a mid-year change to its Standing Data ramp rate.

Following discussions with the IMO, System Management elected to hold an additional round of informal consultation between 17 June 2013 and 1 July 2013. During this time System Management received a submission from Community Electricity, supporting the Procedure Change Proposal as amended by System Management following the public consultation period.

System Management also received a submission from Alinta. In its submission Alinta clarified that it had supported System Management in removing duplicate consultation requirements (approximately 10 weeks in total if a Procedure Change Proposal is progressed) on the grounds that it would result in an inefficient use of industry resources. While System Management's proposed amendments would remove the duplicate consultation, Alinta expressed concern that there would be no transparency of outcomes of System Management's annual review (i.e. there would be no requirement to produce a report on the outcomes of System Management's annual review). Alinta recommended that a review of System Management's annual review process be undertaken.

Alinta also noted that System Management had proposed (in the Procedure Change Report) additional changes to the Tolerance Range formula to limit changes in Standing Data from having effect until the next review period. Alinta queried the rationale for these changes and suggested that as they were not consulted on as part of System Management's recent annual review the changes should not be included into the PSOP at this time.

4. The IMO's Assessment

The IMO is required under clause 2.10.14 of the Market Rules to make a decision whether to approve a proposed PSOP, or amendment to or replacement for a PSOP, prepared by System Management. The IMO has undertaken an assessment of the proposed amendments in light of the requirements outlined in clause 2.9.3(a) of the Market Rules, which states that Market Procedures must be:

- developed, amended or replaced in accordance with the process in the Market Rules;
- consistent with the Wholesale Market Objectives; and
- consistent with the Market Rules, the Electricity Industry Act and Regulations.

The IMO's assessment of the proposed amended PSOP is outlined in the following sections.

4.1 System Management consideration of issues raised during consultation

In response to Alinta's query as to why a static Tolerance Range is preferred, System Management suggested in its Procedure Change Report that a static version of the Tolerance Range formula, where the Tolerance Range "amount" calculated for each Scheduled Generator can only change after an annual review, was required under the Market Rules and that rule changes (with associated costs potentially for both System Management and the IMO) would be required in order to implement a dynamic approach to the Tolerance Range. System Management noted that this was beyond the scope of PPCL0024 but could be considered during the annual review of the Tolerance Range.

To align its internal process with this interpretation of the Market Rules, System Management proposed to cease adjusting a Scheduled Generator's Tolerance Range in response to infrequent Standing Data ramp rate changes that occur prior to an annual review of the Tolerance Range. Instead, any Standing Data ramp rate changes that have occurred during the preceding period would be taken into consideration during the annual review process.

In response to Alinta's request for evidence of the benefits (and associated costs) of using a static Tolerance Range as opposed to a dynamic Tolerance Range, System Management noted it is not

in a position to undertake a complete cost benefit analysis as it is not privy to the commercial implications that may arise from the application of the Tolerance Range in processes such as the recovery of out of merit generation payments and settlements.

However, System Management noted that it had undertaken some analysis of the application of the dynamic version of the Tolerance Range formula applying the dispatched ramp rate. Based on the results of its analysis, System Management considered it unlikely that the application of the dynamic version of the Tolerance Range formula would make any significant difference to the outcomes of the currently applied static Tolerance Range formula, at least in the near future.

System Management also noted that clause 2.13.6E of the Market Rules and section 4.3 of the PSOP allow a Facility to apply for an individual Facility Tolerance Range in situations where the general Tolerance Range may not be appropriate.

System Management proposed to continue to apply the static version of the Tolerance Range but noted that it will monitor trends in dispatched ramp rates in future (post 1 July 2013) annual reviews of the Tolerance Range, to determine if the current formula being applied remains appropriate.

System Management also noted that it agreed with Alinta's comments that a separate consultation process for the annual review of the Tolerance Range is unnecessary and had therefore revised the drafting of section 4.4 of the PSOP accordingly. System Management did not provide its reasons for removing the requirement to conduct a public consultation process where it considered, in an annual review of either the Tolerance Range or a Facility Tolerance Range, that no change was required.

4.2 Wholesale Market Objectives

The IMO notes that the proposed correction to the ROC parameter definition in section 4.1 and the removal of the reference in Appendix 1 to clause 7.10.6 improve the overall integrity of the PSOP. However, the IMO considers that the proposed amendments to section 4.4, which remove the requirement on System Management to include a public consultation process in its annual reviews of the Tolerance Range and any Facility Tolerance Ranges (unless it decides to change a tolerance range) is inconsistent with Wholesale Market Objectives (b) and (c).

The tolerance range applied to a Scheduled Generator has a potentially significant impact on that generator, affecting its settlement outcomes and its compliance with the Market Rules. By reducing the scrutiny to which System Management's annual reviews of tolerance ranges are exposed, the proposed amendments increase the likelihood that System Management may fail to take into account all the appropriate factors when reviewing the Tolerance Range or a specific Facility Tolerance Range, or may apply inconsistent assumptions in its determinations.

In particular, System Management may fail to take into account that some factor used to determine the original Tolerance Range or Facility Tolerance Range has changed since the original determination. This increases the likelihood that a generator may be disadvantaged by the specific Facility Tolerance Range determined for it, or a that a generator type may be disadvantaged by the impact on that generator type of the general Tolerance Range, an outcome that is inconsistent with Wholesale Market Objective (c).

Further, a reduction in the transparency of the annual review process may reduce a potential generator's confidence that an appropriate tolerance range will be assigned to its Facility (i.e. one

that will allow it to operate in compliance with the Market Rules and without adverse settlement impacts), and that it will be treated in an equitable manner. The reduction in transparency may also encourage more general perceptions of a lack of transparency and equity in the Wholesale Electricity Market (WEM). This perception (whether justified or not) may act as a disincentive to potential new entrants and as such would be inconsistent with Wholesale Market Objective (b).

The IMO considers that the proposed amendments are consistent with the remaining Wholesale Market Objectives.

5. The IMO's Decision

The IMO's decision is to reject the amended PSOP: Monitoring and Reporting Protocol as proposed by System Management in its Procedure Change Proposal and further amended in its Procedure Change Report.

5.1 Reasons for the decision

The IMO's decision is based on its assessment that overall the proposed amended PSOP is inconsistent with the Wholesale Market Objectives, and in particular is inconsistent with Wholesale Market Objectives (b) and (c).

Additional detail outlining the analysis behind the IMO's reasons is outlined in section 4 of this report.

5.2 Proposed next steps

The IMO agrees with Alinta that there is a need to consider and resolve a number of wider issues around the use and determination of Tolerance Ranges and Facility Tolerance Ranges. While the IMO's decision is to reject this Procedure Change Proposal, the IMO proposes to work with System Management to consider the broader issues identified by Alinta and others around tolerance ranges and develop any necessary rule and procedure changes.

However, in the short term the IMO reiterates that there is no requirement under the Market Rules for the Tolerance Range Formula to be included in the PSOP. Instead the Market Rules require the Tolerance Range to be provided by System Management to the IMO and published on the Market Web Site. Further, as long as the Tolerance Range is subject to an annual review the IMO considers that it may be inefficient to include the formula in the PSOP, since any changes to the formula arising from an annual review would require a procedure change.

5.3 Impact of Standing Data changes on Tolerance Ranges

The IMO notes that the Tolerance Range formula on the Market Web Site defines the ROC and NPC parameters as being equal to the relevant Standing Data values for the generator. The formula and supporting definitions give no indication that the values to be used in the calculations are the Standing Data values as at some particular point in time, or that the Tolerance Range for a particular Scheduled Generator should not change if and when these Standing Data parameters are updated.

Further, the IMO disagrees with System Management's view that the Market Rules prohibit the use of a dynamic Tolerance Range formula, although it does agree that the introduction of a highly dynamic formula (such as the one contained in the current PSOP) might involve significant system

costs for both the IMO and System Management, which would need to be considered against any potential benefits.

Accordingly, the IMO considers that under the current formula provided by System Management, the Tolerance Range for a Scheduled Generator is only “fairly static” (as described by System Management in the Procedure Change Proposal) and will change during the year if there is a relevant Standing Data change. The IMO notes that this is consistent with historical practice and System Management’s explanation of the Tolerance Range in the Procedure Change Proposal. It also seems logical to update a Scheduled Generator’s Tolerance Range whenever there is a change to the Facility’s Standing Data, to ensure that the Tolerance Range remains appropriate for the Facility.

In order to alter the current formula listed on the Market Web Site, System Management would need to undertake a further Tolerance Range consultation process under clause 2.13.6G of the Market Rules.