



Independent Market Operator

**The IMO's decision: Proposed
Replacement Power System
Operation Procedures:**

**Competitive Balancing and Load
Following Market 1 – PART B**

Ref: PPCL0021

Date: 22 June 2012

CONTENTS

EXECUTIVE SUMMARY	3
1. INTRODUCTION	4
2.1 Summary of the Proposal.....	4
3. CONSULTATION	5
3.1 Market Advisory Committee or Working Group	5
3.2 Submissions received during consultation period.....	8
3.3 Submissions received during the further consultation period	8
4. THE IMO'S ASSESSMENT	11
4.1 System Management consideration of issues raised during consultation	11
4.2 Wholesale Market Objectives.....	12
4.3 Market Rules, the Electricity Industry Act and Regulations	12
4.4 Implementation of the replacement Power System Operation Procedure.....	12
5. THE IMO'S DECISION	13
6. THE REPLACEMENT POWER SYSTEM OPERATION PROCEDURES	13
6.1 Commencement	13
6.2 The Replacement Power System Operation Procedure	14

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EXECUTIVE SUMMARY

Procedure Change Proposal

System Management proposes to replace the Power System Operation Procedure (PSOP): Dispatch and PSOP: Communications and Control Systems which have been impacted by the new Balancing and Load Following markets scheduled to commence on Balancing Market Commencement Day¹.

Consultation

- System Management formally submitted the Procedure Change Proposal with a request for submissions closing on 6 February 2012.
- A further consultation period was held in accordance with the public notice published on 19 March 2012. The further consultation period ended on 29 March 2012.
- The replacement PSOPs were discussed by members of the System Management Procedure Change and Development Working Group at its 12 December 2011 meeting (prior to formal submission) and the Rules Development Implementation Working Group at its 22 March 2012 meeting (during the further consultation period).
- One submission was received from Landfill Gas & Power (LGP) during the formal consultation period. Submissions from Alinta, the IMO, LGP and Synergy were received during the further consultation period.

The IMO's Assessment

The IMO notes that for the purposes of approval System Management has decided to separate the two PSOPs and progress these separately. The decision in this document relates to the PSOP: Dispatch (Part B).

The IMO has found the proposed replacement PSOP: Dispatch to be consistent with the Wholesale Market Objectives, the Market Rules, the Electricity Industry Act and the Regulations.

Practicality and Cost of Implementation

No costs associated with the implementation of the proposed replacement PSOP or issues with the practicality of the proposed replacement PSOP have been identified by either the IMO or System Management.

The IMO's Decision

The IMO's decision is to accept the proposed replacement PSOP: Dispatch.

Next steps

The replacement PSOP: Dispatch will commence at 8.00 AM on the Balancing Market Commencement Day.

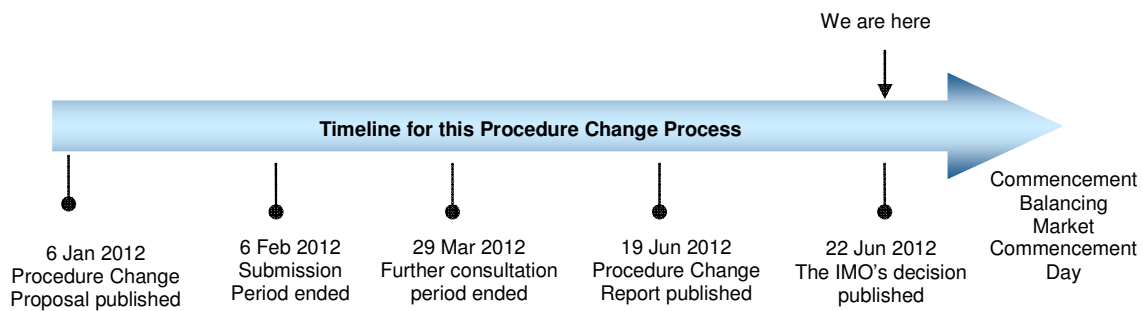
¹ For further details refer to the Final Rule Change Report for the Rule Change Proposal: Competitive Balancing and Load Following Market (RC_2011_10) available on the Market Web Site.

1. INTRODUCTION

On 6 January 2012, the Independent Market Operator (IMO) published a Procedure Change Proposal from System Management titled “Replaced PSOPS: Competitive Balancing and Load Following Market 1”, regarding the replacement of the Power System Operation Procedure (PSOP): Dispatch and the PSOP: Communications and Control Systems.

The proposal has been processed according to the Procedure Change Process under clause 2.10 of the Wholesale Electricity Market Rules (Market Rules). The IMO notes that for the purposes of approval System Management has decided to separate the two PSOPs and progress these separately. The decision in this document relates to the PSOP: Dispatch (Part B).

The key dates in processing Part B of this Procedure Change Proposal are:



2. PROPOSED AMENDMENTS

2.1 Summary of the Proposal

In its proposal, System Management notes that following feedback from Market Participants and the findings of the Verve Energy Review, a proposal to establish competition in the provision of both Balancing and Load Following Ancillary Services was developed. The resulting amendments to the Market Rules were progressed by the Rule Change Proposal: Competitive Balancing and Load Following Market (RC_2011_10)². System Management considered it was therefore necessary to make related and relevant changes to the PSOPs impacted on by RC_2011_10.

System Management also notes that it has included a number of minor and typographical amendments to the PSOP consistent with its endeavour to continuously seek to improve the integrity and accuracy of the PSOPs.

² Note that the final Amending Rules resulting from RC_2011_10 were approved by the Minister on 20 March 2012. Refer to the following webpage for further details: http://www.imowa.com.au/RC_2011_10

Full details of the Procedure Change Proposal are available at: <http://www.imowa.com.au/PPCL0021>

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 (clause 2.3.17(a)); and
- considering, assessing, developing and undertaking post-implementation evaluation of change to the Market Rules associated with the issues list agreed at the 11 August 2010 MAC meeting to the Rules Development Implementation Working Group (RDIWG).

Details of the discussion of the proposed replacement PSOP: Dispatch by these Working Groups is outlined below. At the time of publishing the Procedure Change Proposal the IMO notified the MAC and noted that it would convene a meeting of the MAC to discuss should two or more members wish to (clauses 2.10.8 and 2.10.9). No MAC member contacted the IMO in this regard.

12 December 2011 – System Management Procedure Change and Development Working Group Meeting

Prior to formal submission the proposed replacement PSOP was discussed by the Working Group at its 12 December 2011 meeting. During the meeting Mr Neil Hay presented an overview of the changes to the Dispatch PSOP. Mr Hay advised the Working Group that the proposed amendments are reflective of the new Balancing Market design, including providing more detail on timelines and how decisions will be made, and that redundant requirements have been proposed to be removed. Mr Hay noted that one significant change to the PSOP will mean that System Management will no longer be required to prepare an initial Dispatch Plan for Verve Energy. The following additional points were raised during discussion by the Working Group:

- Mr Andrew Stevens raised an issue with the ability for a Market Participant to be provided an instruction by System Management to ramp down to a level below MinGen. In these cases it would simply be a matter of the Facility going to its MinGen level and turning off completely. There would be potential impact on future Trading Intervals as they would be operating at a level below that required.
- Following dissenting views on how instructions in these instances would work between Working Group members, Mr Stevens requested a clarification as to how Dispatch Instructions would work in these situations from Mr Ben Williams. Mr Stevens also

noted that consideration of how frequently these events may occur would be valuable so as to not inappropriately devote too much time to clarifying this issue if it is unnecessary. Mr Williams agreed to provide an overview of how Dispatch Instructions would work in these instances.

At the conclusion of the meeting the Chair advised members that there would be further out of session consultation on the PSOPs to allow members more time to evaluate the amendments. No further comments were received by System Management during this out of session consultation period.

22 March 2012 – RDIWG Meeting

Subsequent to System Management's request to the IMO to undertake a further consultation period with all of industry, the updated replacement PSOPs were also presented to the RDIWG for discussion at its 22 March 2012 meeting. During the meeting the following main points were raised with respect to the PSOP: Dispatch. Note that the completeness the points raised regarding the PSOP: Communications and Control Systems are also presented given their overlap with the revised dispatch processes:

- Mr Cameron Parrotte summarised that most of the changes made for further consultation were made in relation to the Dispatch PSOP, with amendments made to section 5.1 and 5.3 to clarify System Management's obligation on load forecasts.
- Mr Corey Dykstra stated that section 2.2.2(b) of the Communications and Control Systems PSOP was confusing. Mr Parrotte advised that similar feedback had been received from another party, and confirmed that the wording would be clarified.
- Dr Steve Gould stated that section 2.2.1 of the Communications and Control Systems PSOP was also confusing. Mr Parrotte advised that the intention of section 2.2.1 was what System Management deemed as the standard requirements for a Market Participant who had specific conditions imposed on them. The Chair advised that the IMO could assist with redrafting the clause, and requested it be circulated to the RDIWG by the end of the week for consideration.
- In regards to section 2.1.1(a), Mr Parrotte stated the feedback received from Market Participants was that business-to-business (B2B) was the preferred way to proceed. System Management would commence workshops in late April to determine what the portal and B2B will look like. As of December B2B and Automated Governor Control (AGC) would be acceptable methods of responding to Dispatch Instructions for Facilities without exemptions.
- The Chair queried if Market Participants would be ready for December, and asked System Management if there would be a degree of leeway for those who were not ready. Mr Andrew Stevens advised that B2B had always been the preferred option but it

had not been mandatory until now. Mr Dykstra agreed with the Chair's request for the provision of a degree of flexibility.

- The Chair suggested that, in order to ensure fairness, Market Participants should be provided with a reasonable lead-time regarding the implementation of the B2B solution. Mr Stevens advised that there wasn't any visibility at the moment on what the B2B was going to look like, and asked if System Management were going to insist that it was mandatory. Mr Stevens advised that 18 months was a realistic lead-time, and that if they were expected to be ready by December, they would need to see the specifications now.
- The Chair advised that there were some organisation, who would find it easy to accommodate the B2B by 5 December, but that some wouldn't, therefore a degree of flexibility is needed to be provided to those Market Participants who experience difficulties in meeting the deadline. Mr Parrotte confirmed that System Management would consider all the feedback provided about introducing a degree of flexibility for the take up on B2B in December. Mr Brad Huppatz advised that the feedback provided regarding B2B was that it was highly desirable, but it should not be mandatory. Mr Parrotte advised that System Management were initially proceeding with SMS and email notifications, along with the portal, in order to communicate.
- Mr Dykstra queried the references to MPI, the portal, and the website within the Communications and Control Systems PSOP (notably section 2.1.1(c) and 2.2.1(a)) and requested the procedure be updated to ensure consistent use of terminology. Mr Kelloway advised that some investigation needed to be done to ensure that AGC covered the Balancing market. Mr Dykstra expressed concern over the lack of clarity in regards to the technology options that were available.
- Mr John Rhodes expressed surprise at the reference to 24x7 monitoring for Demand Side Programmes (DSPs) and obligations within section 2.5 of the Communications and Control Systems PSOP, and queried why it was needed, as this resulted in a mismatch between 24x7 and the Monday to Friday obligations for dispatch. Mr Parrotte advised that System Management would review this section of the procedure.
- Mr Andrew Sutherland advised that they were eager to get to establish an operating agreement with System Management, and queried how defined the agreement was. Mr Kelloway advised that it was similar to the operating protocol, but there would be more to the agreement from a Dispatch point of view. Mr Sutherland advised that if it was not in the procedure then they needed to have further details on it.
- The Chair advised that the transparency of outages and how Market Participants responded to outages was crucial and this would be looked at in the implementation of the outage planning review recommendations. This would be addressed further in the MAC meetings.

3.2 Submissions received during consultation period

The public submission period was between 9 January 2012 and 6 February 2012. During this time System Management received one submission from Landfill Gas & Power (LGP).

In its submission LGP noted that it did not support the Procedure Change Proposal with respect to either the PSOP: Communications and Control Systems or PSOP: Dispatch. LGP's reasoning for not supporting the replacement PSOP: Dispatch was that step 5.4 (Significant Discrete Loads) had not been finalised or properly discussed, and was potentially onerous for Retailers depending on the definition of "related loads".

LGP noted the following additional concerns with respect to the PSOP: Dispatch (though noting these issues were not considered to be material):

- The confidentiality requirement specified in clause 5.5.6 should be harmonised with the general requirements for confidentiality and not treated as a special case.
- While LGP supported the intent of steps 6.1.3(c)–(f), LGP perceived that this was an inelegant manner of implementing it.
- In step 7.4.4, LGP sought confirmation that the offered turn down price has no role to play in this order.
- LGP suggested that the procedure would benefit from an editorial read-through.

LGP also suggested that the two procedures would preferably have been the subject of individual Procedure Change Proposals.

3.3 Submissions received during the further consultation period

System Management provided interested parties with a further consultation period which was between 19 March 2012 and 29 March 2012. During this time System Management received submissions from Alinta Energy, the IMO, LGP and Synergy.

A full copy of each of the submissions received during the further consultation period is available on the Market Web Site.

Alinta Energy

Alinta Energy raised a number of concerns in its submission around the intended processes for issuing and confirming Dispatch Instructions given that under the new market every change in facility generation levels will be in response only to a Dispatch Instruction issued by System

Management. In particular, the changes would require Market Generators, including Alinta to make significant changes to existing processes and systems.

In particular, Alinta Energy noted that given the short timeframe until market start, System Management's intention to rely on existing information/communication systems, specifically its web portal SMMITS, for issuing and confirming Dispatch Instructions appears necessary. However, and while providing a Dispatch Instruction alert via email and SMS will be beneficial, the requirement to manually confirm Dispatch Instructions via the web portal will effectively require generation facilities to revert to manual control. This is because under the new Balancing Market arrangement Market Generators cannot pre-empt the Dispatch Instructions that System Management are likely to issue (based on the last Forecast Balancing Merit Order), but must instead manually confirm a Dispatch Instruction via the web portal before being able to adjust a facility's generation level.

Alinta Energy considered that reliance on a manual confirmation process via System Management's web portal to receive and confirm Dispatch Instructions close to real time (as little as 120 seconds prior to plant movement), combined with an increase in the frequency of Dispatch Instructions, create a significant compliance risk for Market Generators. Alinta Energy considered that it would appear the only real way these risks could be adequately managed was through a return to a fully automated system for issuing and confirming Dispatch Instructions. Alinta Energy understood that this is intended to be available for 5 December 2012, although no specifications are available as yet of the proposed SMARTS B2B system.

Without certainty around the timing of when the detailed SMARTS B2B specification will be available, Alinta Energy considered it is difficult for Market Generator to make an informed assessment of the scope of work for automating the receipt and confirmation of Dispatch Instructions. As a result, it is unreasonable to assume that Market Generator will be able to scope, procure, implement and test the necessary systems and/or system and process changes prior to 5 December 2012. Thus the ability of Market Generators to participate in the Balancing Market would be uncertain from 5 December 2012 if the PSOP was to preclude them from continuing to use the manual dispatch confirmation process via System Management's web portal from that time. Alinta Energy suggested that given the web portal is to be retained in any event, and that it does not change a Market Generator's compliance obligations, no participant should be precluded from relying on it to participate in the Balancing Market.

Alinta Energy considered it would not be reasonable to commercially penalise a Market Generator that was unable to implement the B2B solution for 5 December 2012 by imposing restrictions on the manner in which it may participate in the Balancing Market, simply because insufficient information was available in a timeframe to support such an implementation. Alinta Energy further stated that given the absence of any detailed specifications on System Management's proposed B2B system architecture, it did not appear reasonable at this time to preclude Market Generators from continuing to rely on a manual confirmation process via the web portal after 5 December 2012. There was simply not sufficient time to scope, procure, implement and test the necessary systems and/or system and process changes.

Alinta Energy also noted the following concerns:

- 60 second response time (step 6.6.2) - until System Management's B2B was implemented and Market Generators were able to develop the necessary interfaces, ensuring a Dispatch Instruction can be confirmed within 60 seconds (and ensuring plant movements commence within a further 240 seconds) would represent a significant compliance risk to Market Generators. It would not be reasonable to commercially penalise Market Generators that were unable to implement a B2B solution for 5 December 2012 by imposing restrictions on the manner in which they may participate in the Balancing Market simply because insufficient information is available in a timeframe to support such an implementation; and
- Constrained off non-scheduled generation (step 7.3.3) – Alinta Energy questioned the rationale behind the comment in the note that System Management may constrain non-scheduled generation outside of the BMO due to forecast error, considering that this raised significant uncertainty.

The IMO

In its submission the IMO provided support for System Management's decision to undertake a further round of consultation on the replacement PSOPs. The IMO attached a copy of its questions and suggestions on all the relevant PSOPs that were provided for further consultation to its submission. These included the issues that were raised during the RDIWG's discussion on 22 March 2012. An overview of the relevant issues raised in the log relating to the Dispatch PSOP is presented below:

- Non-Scheduled forecasts (Section 5.5) - Consistency of use of intermittent and non-scheduled.
- Bona Fide Changes (Section 6.1.2) – Requirements for Market Participants to advise System Management of reduced capability and then inform System Management on the relevant market system (as well as update any Balancing bids/offers as required under the Market Rules) seemed excessive.
- Facility Commitment (Section 6.2) – Is a phone call for synch/desynch still necessary when System Management is issuing all Dispatch Instructions? What happens with a plant on AGC? (i.e. is a phone call for synch/desynch still needed?)
- Response to Dispatch Instructions, Operating Instructions and Dispatch Orders (Section 6.6) – For the transitional market System Management needs to give Market Participants longer than 60 seconds to confirm acceptance. Additionally why do participants need to respond to a Dispatch Instruction?

- There appear to be some inconsistencies between System Management’s proposed dispatch process and the Market Rules in RC_2011_10, the IMO also questions some of the obligations System Management is placing on itself and its ability to do so under the Market Rules.

LGP

In its further submission LGP did not provide any specific comments on the Dispatch PSOP, only the Communications and Control Systems PSOP. For further details of the issues relating to the Communications and Control Systems PSOP raised by LGP refer to its full submission available on the public webpage.

Synergy

Synergy noted that its primary concern related to the Communications and Control Systems PSOP. For further details of the issues relating to the Communications and Control Systems PSOP raised by Synergy refer to its full submission available on the public webpage.

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.³ The IMO has undertaken an assessment of the proposed amendments in light of the requirements outlined clause 2.9.3(a) of the Market Rules which requires 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 has also reviewed the commencement date proposed by System Management to ensure that it will allow sufficient time after the date of publication of the Procedure Change Report for Rule Participants to implement the changes required by it (clause 2.10.15(c)).

The IMO’s assessment of System Management’s proposed replacement PSOP: Dispatch is outlined in the following sections.

4.1 System Management consideration of issues raised during consultation

The IMO notes that System Management has responded to the issues raised by submissions received during the consultation period, further consultation period and by the RDIWG during its 22 March 2012 meeting.

The IMO notes that following the further consultation period System Management has incorporated a number of additional processes into the replacement PSOP: Dispatch. Most notably relating to:

- the process for selecting Non-Balancing Facilities from the Non-Balancing Merit Order (as required to be included in the PSOP by clause 7.7.4A);
- how Load Rejection Reserve Response Quantities and Spinning Reserve Response Quantities are calculated (as required to be included in the PSOP under clause 7.13.1(eD)) ;
- how SOI/EOI Quantities and RDQ are calculated after the Trading Day (as required to be included in the PSOP under clause 7A.3.7);
- how forecasts of RDQ and EOI Quantities are calculated (as required to be included in the PSOP under clause 7A.3.15); and
- how System Management's forecast of the LFAS Quantity for each Trading Interval in the next Trading Day is determined (as required to be included in the PSOP under clause 7B.1.4).

4.2 Wholesale Market Objectives

The IMO considers that the proposed replacement PSOP: Dispatch is drafted in a way that does not change the operation or objectives of the Market Rules, as amended by RC_2011_10. As a result, the IMO considers that the proposed replacement PSOP: Dispatch is, as a whole, consistent with the Wholesale Market Objectives.

4.3 Market Rules, the Electricity Industry Act and Regulations

The IMO considers that the proposed replacement PSOP: Dispatch consistent with:

- the Market Rules,
- the Electricity Industry Act; and
- Regulations.

The IMO also considers that the proposed replacement PSOP: Dispatch is consistent with all other Market Procedures.

4.4 Implementation of the replacement Power System Operation Procedure

In its Procedure Change Report, System Management does not identify any operational considerations that need to be taken into account when determining the implementation date for the replacement Dispatch PSOP and recommends that the replacement PSOP commence on the Balancing Market Commencement Day. The IMO also notes that the submissions received during the public consultation process did not provide any evidence to suggest that Market Participants would be not able to implement the revised processes in the replacement PSOP by the Balancing Market Commencement Day.

The implementation of the replacement Market Procedures constitutes part of the overall implementation of the new Balancing and LFAS Markets. The IMO considers that the proposed replacement PSOP will support the operation of the new markets and will not require the IMO or System Management to implement any procedure or system amendments in addition to those already being incurred as part of the overall implementation of the new markets.

The IMO considers that System Management's proposed commencement date at 8.00 AM on the Balancing Market Commencement Day should allow sufficient time from the date of publication of System Management's Procedure Change Report to ensure compliance with the replacement PSOP.

5. THE IMO'S DECISION

The IMO's decision is to approve the replacement PSOP: Dispatch as proposed by System Management in its Procedure Change Report.

5.1 Reasons for the decision

The IMO's decision is based on its assessment that the replacement PSOP: Dispatch:

- will enable the operation of, and facilitate participation in the new Balancing and Load Following Markets and thereby support the achievement of the Wholesale Market Objectives;
- is consistent with the Market Rules, the Electricity Industry Act and Regulations; and
- requires no additional system changes to implement.

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

6. THE REPLACEMENT POWER SYSTEM OPERATION PROCEDURES

6.1 Commencement

The replacement PSOP: Dispatch will commence at **8.00 AM** on the **Balancing Market Commencement Day**.

6.2 The Replacement Power System Operation Procedure

The wording of the approved replacement PSOP: Dispatch is available on the IMO's website.