

Market Rules Design Review: Q & A

#	Detail	Answer
1	Evaluation, Decision and Approval Process	
(a)	What is the decision making criteria?	<p>Ultimately, the selected option(s) will need to be formally assessed against the Wholesale Market Objectives, following more detailed investigation and design and development of a formal Rule Change Proposal.</p> <p>Additional analysis on the implications of options from different perspectives (e.g. market wide, System Management and individual participant) has been undertaken and will be further developed once a pathway has been selected.</p> <p>For additional detail on the evaluation of each option see sections 4, 10 and Appendix 1 of the Concept Paper.</p>
(b)	What is the approval framework? What is the Minister's role?	<p>The approval framework and Minister's role is dependent on the option and/or pathway chosen. There will be a number of approval/decision levels:</p> <ul style="list-style-type: none"> • IMO is required to consult with Minister before it enters a course of action that amounts to be a major initiative or is likely to be of significant public interest (reg.24 IMO regulations). • Market Rules Design Team to take account of MAC's views (on behalf of Industry) on the appropriate pathway(s) to investigate further and ultimately the appropriate pathway to implement. • Funding approval is dependent on pathway chosen: <ul style="list-style-type: none"> ○ IMO Board/Western Power Board approval for changes to IMO/System Management Operational Plans. ○ Minister to approve amended Operational Plan/Budgets for IMO and System

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		<p>Management – this will impact 2011/12 Market Fees.</p> <ul style="list-style-type: none"> ○ ERA approval required if a Declared Market Project is confirmed (see clauses 2.22.13 and 2.23.14 of the Market Rules for more information on Declared Market Projects). • Rule Change Process: <ul style="list-style-type: none"> ○ IMO Board approval (see clauses 2.4.2 and 2.4.3 for considerations the IMO Board takes into account on whether to make Amending Rules). ○ Minister’s approval for any protected provisions (provisions deemed to relate to issues where the IMO could face a possible conflict of interest if it were to attempt to modify those rules, see clause 2.8.13 of the Market Rules for more information). • Other considerations (still to be assessed): <ul style="list-style-type: none"> ○ Will ACCC approval be required (therefore granting immunity from prosecution for conduct under the Market Rules that might otherwise be considered to be anti-competitive under Part IIIA of the Trade Practices Act. This will be dependent on the detailed design of any option chosen. ○ To what extent do any of the options under consideration require an Australian Financial Services licence? ○ Any changes to the broader Regulatory regime? This will be dependent on the detailed design of any option chosen, and is a matter for the “owner” of the relevant instrument. For example subsequent changes may be required to the Metering Code or Access Code (or other Regulatory instrument).
(c)	<p>Cost benefit analysis: What are the costs and benefits associated with the options (implementation and ongoing)? Will Market Participant costs be included in the analysis?</p>	<p>To supplement the initial qualitative evaluation contained in the concept paper (section 10 and appendix 1) the Market Rules Design Team will undertake a high level quantitative analysis of the costs and benefits of all pathways.</p> <p>This high level analysis will be available prior to any pathway decision being made.</p> <p>Once a preferred pathway is chosen the Market Rules Design Team will undertake a full cost benefit assessment. Individual Market participant costs will need to be assessed by individual participants.</p>
(d)	How will implementation costs be funded	Funding is dependent on pathway chosen.

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		Unless special arrangements are made the IMO and System Management development costs will be funded from Market Fees (whether within the existing Allowable Revenue/Operational Plans or via a Declared Market Project).
(e)	Is there an option to investigate other options or expand existing options?	<p>The Market Rules Design team has deliberately selected a broad spectrum of possibilities in its exploration of conceptual design options.</p> <p>As the detailed design work is undertaken it is feasible that aspects of the current options could be expanded or moved along the spectrum. But it is not expected that alternatives will fall outside the broad spectrum.</p>
(f)	<p>What are the timelines associated with:</p> <ol style="list-style-type: none"> 1. Cost benefit analysis; 2. Pathway decision; 3. Oates Review; 4. Decision making; and 5. Implementation. 	<p>In general, the timelines are dependent on which pathway and/or option is chosen.</p> <ol style="list-style-type: none"> 1. See answer to question 1(c) above. 2. See answer to question 1(i) below. 3. 15 months. 4. Pathway recommendation: Expected July 2010 MAC meeting. 5. Dependent on what pathway and option chosen. Option A2 may not be able to and options B & C would not be able to be implemented by March 2011.
(g)	What other information is required before a decision is made?	The IMO will issue a request for information required for stakeholders to make an informed decision in the near future. The next version of the concept paper will include the additional information requested, where appropriate.
(h)	Does the IMO have a preference for an option, if so, which one.	The IMO has no preference, the direction will be industry driven- subject to assessment against Wholesale Market Objectives and any necessary funding approvals.
(i)	<p>Pathways:</p> <ol style="list-style-type: none"> 1. Why is there no consideration of joining the NEM? 2. When is it necessary to choose between Net and Gross for pathway 2? 3. Is there any need for change if Vesting contract and cost reflective pricing issues are resolved? 	<ol style="list-style-type: none"> 1. The Terms of Reference (advised to MAC on 24 December 2009) noted that the fundamental design including capacity market and physical bilateral contracts was not under review. Therefore whether the WEM should join the NEM is not within the mandate of this project. 2. If it is decided to pursue pathway 2, then the work to develop gross and net designs in more detail will be initiated in parallel with enhancements to the current hybrid design. There would be less urgency in deciding between gross and net designs than under

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	<ol style="list-style-type: none"> 4. If enhanced hybrid solves most of the issues why move further? 5. If option B/C chosen, what is the opportunity to fix smaller issues rectified by A1/A2? 6. If a hybrid option is chosen do we need to know up front whether this is a final or transitional decision point? 	<p>pathway 3.</p> <ol style="list-style-type: none"> 3. It has been decided that changes to both the Vesting Contracts and the Market Rules (under both the Oates Review and the Market Rules Evolution Plan) should be made. 4. Changes included in the enhanced hybrid concept are expected to satisfy the intent of the Oates review requirements and begin to meet the changes under the Market Rules Evolution Plan. While the hybrid design can be enhanced, the scope of outcomes may be limited. If competitive balancing and greater separation of System Management and Verve are seen as desirable, a gross or net design will need to be implemented. 5. There will be some opportunity to address some shorter term/specific issues if pathway 3 is selected. However, these incremental changes will be kept to a minimum for cost effectiveness. 6. The extent and nature of enhancements to the current hybrid design will vary depending on whether it is seen as a transitional or final option. A transitional option would probably involve less effort and cost, focusing more on quick fix issues.
2	Market Rules Design Review scope	
(a)	What are the high priority deficiencies that need to be solved?	See the Verve Energy Review and the Market Rules Evolution Plan.
(b)	<p>Ancillary services:</p> <ol style="list-style-type: none"> 1. Why are Ancillary Services being considered, and could they be considered at a later date? 2. Should both mature options be considered with and without the inclusion of Ancillary Services (option to reduce initial costs)? 	<p>The boundary between Ancillary Services and Balancing is essentially a matter of definition. Both are an integral part of the short term operation of the market and it would be difficult to address STEM and Balancing without addressing Ancillary Services. It is possible that development of Ancillary Service arrangements could be staged to an extent under the hybrid design.</p> <p>Additionally, there has been significant push for improvements in this area of the Market Rules for a number of years (e.g. ERA's effectiveness reports to the Minister).</p>
(c)	<p>Alignment with gas market:</p> <ol style="list-style-type: none"> 1. Why is there so much focus on increased alignment with gas nomination windows? 2. Are the gas timing nominations fixed? Is this a valid assumption? 	<ol style="list-style-type: none"> 1. Alignment with gas nominations has been cited by some participants as a matter of concern. Proposals to move the timing of market operations closer to real time are designed to allow participants and System Management time to acquire better information including about gas but also about weather forecasts and plant condition. 2. For the purposes of its work, the Market Rules Design Team has assumed that the timeframe for gas nominations is fixed. If this timing is open to change then there would be more flexibility available

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		<p>The WEM was initially designed on the premise that Market Participants wanted to be aware of their electricity positions prior to making their gas nominations. A number of Market participants have indicated a preference for closer alignment of these windows, with a general preference for gas nominations to come first, this is due to fuel availability concerns.</p> <p>System Management has expressed difficulties with delaying STEM closer to the timeframes for options A. Because of de-commitment and re-commitment lead times. If IPP Resource Plans are released later then the cycling decision would have already been made in the absence of IPP Resource Plan information.</p>
(d)	<p>Are all elements of the Reserve Capacity Mechanism off the table at this stage, e.g. payments and claw-back?</p>	<p>The fundamental principle of the WEM as a capacity market is not being reviewed.</p> <p>The capacity payment and claw back will be efficient if they reflect incremental cost to customers of incremental capacity. It is difficult to change the balance between the capacity payment, claw back amount or conditions without careful analysis. However, industry concerns about current capacity refund arrangements will be investigated to ensure incentives are appropriate.</p> <p>Any consideration of capacity payments/refunds will be done in the light of work underway in parallel in relation to capacity payments/refunds for intermittent generators (via the Renewable Energy Generation Working Group).</p>
(e)	<p>Other market/industry issues: Why aren't the broader market issues being considered as part of this process i.e. FRC, Access Code and Network Issues?</p>	<p>While this review may highlight a need to look more broadly at some issues, its mandate does not extend beyond the Market Rules.</p> <p>However there are a number of other reviews underway in these areas by different agencies and where applicable, the IMO and Market Rules Design Team will work with these agencies.</p>
(f)	<p>What is the relationship with the SEI?</p>	<p>These are essentially separate processes.</p> <p>The SEI is concerned with long term policy settings. The SEI, among other things, aims to propose an energy vision for 2030 to deliver certainty to investors and to enhance future competitiveness and productivity. In particular the SEI will deliver "policy and regulatory frameworks to promote investment and competitiveness in the energy value chain". This is outlined in more detail in the "Competitive Energy" section of the SEI. For more information see: http://www.energy.wa.gov.au/1/3281/64/strategic_energ.pm</p> <p>The Market Rules Design Review is a shorter term review, investigating specific market details with the view to improving the rules relating to short term day ahead and real time operation of the market. However, it should be noted that in the longer term, as the outcomes/recommendations from the SEI are implemented, moving to the more mature options of B or C would be inevitable.</p>

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3	Bilaterals	
(a)	<p>What are the implications on existing bilateral contracts under options B and C?</p> <p>Have the possibilities that contracts will be renegotiated been taken into account?</p>	<p>Option B or C will support bilateral contracts and it is assumed that if any existing contracts need to be renegotiated this would occur during the transition to the new arrangement (regulatory change provisions are commonly included in contracts for this reason). Participant feedback on the potential need for this would be welcome.</p>
4	Pricing	
(a)	<p>STEM:</p> <ol style="list-style-type: none"> 1. Is STEM pricing going to be changed? 2. Will energy limitations need to be reflected in the STEM for later renominations? 3. Will the STEM be amended to include physical constraints on plant? 	<p>There is a broad design question about whether the STEM should remain as a contact trading mechanism or be expanded to become more like a security constrained pre-dispatch or if physical constraints should be dealt with separately and STEM remain essentially unchanged.</p> <ol style="list-style-type: none"> 1. Yet to be fully considered but in principle arrangements are likely to be similar in concept. 2. Later nominations/renominations should assist participants to better account for and manage energy constraints, particularly under Options B and C however System Management's concerns about timing need to be taken into consideration (see section 2 question (c)). 3. This is a detailed design question but it is important that resource plans be feasible physically.
(b)	<p>MCAP:</p> <ol style="list-style-type: none"> 1. How can MCAP be forecast? 2. Which option will deliver the most stable MCAP? 3. How will MCAP be calculated under the different options? 4. Why provide MCAP forecasts if participants should be bidding efficient prices? 	<p>The Market Rules Design Team acknowledges that there are issues with MCAP. Each of these questions will be addressed in the detailed design work.</p> <p>In principle, MCAP forecasts could be calculated from market pre-dispatch schedules. Under the enhanced hybrid options, Verve Energy pre-dispatch schedules (prepared by System Management) would be the basis for day-ahead MCAP forecasts. Under net or gross dispatch options (B or C), market wide pre-dispatch schedules, updated regularly, would be the basis of balancing price forecasts. A rationale for providing MCAP/ balancing price forecasts to participants is to enable them to reassess their own capabilities in light of market conditions and, if need be, alter their scheduling decisions and market offers. For example, fuel requirements, unit commitments etc.</p> <ol style="list-style-type: none"> 1. The stability of MCAP will be driven by the market conditions/external factors at the time (i.e. fuel availability, plant outages and temperature) and thus reflect the actual cost of balancing. 2. The design team is still working through the detail, however, for example, see answer to 4(b)1 above.

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		3. Forecasts are important factors in decisions by participants about plant operation and are particularly relevant if multiple submissions and price forecasts are introduced as they would be under options A2, B and C.
(c)	SRMC: What is the future of SRMC? Will it still be applicable or will it be changed. How will this differ across all options?	The Market Review Design Team will design the market on the premise that there will be drivers for efficient pricing. If there are barriers to the delivery of efficient pricing (i.e. market power) other agencies and instruments will be used to manage this (i.e. market surveillance and competition authorities). This could include a requirement to bid at SRMC, as in the current arrangements.
(d)	Other: 1. How will the carbon price be included? 2. How should “must run” plant be priced?	1. Participants will need to reflect any carbon costs they face into their STEM/ balancing offer prices. 2. This is a detailed design question. However, typically mature gross and net market designs do away with defining plant as must run and allow market forces to determine which plant is running. Participants can achieve “must run” outcomes by pricing appropriately.
5	Incentives	
(a)	Will UDAP and DDAP remain? Will the pricing mechanisms in the hybrid create appropriate incentives and address disincentives?	The Market Rules Design Team is aiming to ensure the overall package of commercial incentives and compliance obligations are cost efficient. Ideally participants would face a cost reflective price for balancing requirements/ contributions with deviations from resource plan (under A1/2 or B options) subject to an effective surveillance/ enforcement regime. The role and/ or the need for DDAP and UDAP will be evaluated, once a pathway is chosen, with this principle in mind.
(b)	How will MRET work in the incentive regime?	MRET itself is ideally simply an external factor that affects the decisions of Market Participants about the selection of generation technology and does not otherwise interfere with operation of the market.
(c)	Links to Reserve Capacity: 1. How would Reserve Capacity obligations be met in all options? 2. If there is a re-bid that reduces capacity, what is the interaction with capacity refunds? 3. Are all elements of the reserve capacity mechanism off the table at this stage, eg payments and claw-back?	1. These will need to be considered as part of the detailed design process- especially for options that include re-bidding. 2. This is a detailed design question. However, this is an area other capacity markets use rules about the timing of presenting capacity and acceptance/non acceptance by the market as a measure of meeting capacity obligations in similar ways to System Management approval of an outage at present. Similar rules may need to be developed if rebids are introduced. 3. See answer to 2(d) above. The concept of the capacity payment is not being reviewed but the operation of the mechanism is included – e.g. the conditions/timing of capacity refunds.

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6	Balancing Support Contracts	
(a)	Are BSC's feasible? How will a BSC be structured?	This is part of the detailed design process. For more information on the Market Rules Design Team's initial thinking, see the presentation from the 12 May 2010 MAC meeting: www.imowa.com.au/MAC_28
7	Renewables and/or Demand Response	
(a)	<ol style="list-style-type: none"> 1. What is the impact on renewables for each option? 2. What are the incentives for dual fuel capability for intermittent generation in each of the models? 3. Could the NEM semi-dispatch model for renewables fit into the hybrid models? 4. With increased size of intermittent generators, does this have an impact on the assessment of the options? 5. How do the models differ in the ability to incorporate demand response? 	<ol style="list-style-type: none"> 1. Details have not been developed as yet but an assessment of the impact on participants will be part of the detailed assessment process. 2. This question is unclear. 3. Potentially, this is a detailed design question. The NEM semi dispatch model is linked to network constraints which does not apply to access arrangements in SWIS (nor the WEM Rules), however in principle the model could be applied to management of system wide minimum load in the SWIS. 4. The potential for the design options efficiently to accommodate increasing levels of intermittent generation in the short and long term will be important considerations. The market is already facing minimum overnight load/ unit commitment issues. 5. During the detailed design phase options for Demand Response will be considered.
8	Market Power	
(a)	<ol style="list-style-type: none"> 1. How to prevent gaming if MCAP forecasts issued (abuse of market power)? 2. As getting closer to real time, how do you manage the potential for exercising market power? 3. How do you stop someone dominating a hedge market? 	<ol style="list-style-type: none"> 1. Refer 4 (c) above. Transparency around market prices through republication of dispatch schedules provide opportunities for Market Participants to respond. Market power and inappropriate behaviour is recognised as a risk and policy decisions need to be taken about if and how to mitigate (the current SRMC obligation is an option). These options need to be considered in the detailed design process. 2. Refer 4 (c) above. Detecting inappropriate behaviour around gate closure is a surveillance function. Such concerns are sometimes reflected in the selection of gate closure timing and limiting subsequent changes to offers to demonstrable physical changes (e.g. plant failure). 3. Outside the scope of this review.
9	Transparency	
(a)	What are efficiency gains from increased	In general, in the short term, greater transparency increases short term market discipline on

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	transparency?	participants and provides increased opportunities to assess and respond to market conditions efficiently. Over the longer term, this increases investor confidence in participating in the market.
10	Must Run Plant	
(a)	<ol style="list-style-type: none"> 1. What is the definition of “must run plant”? Does it include wind and other renewables? 2. How do you price must run plant? 	This is a detailed design question. However, typically mature gross and net market designs do away with defining plant as must run and allow market forces to determine which plant is running. Therefore “must-run” plant will be priced according to market outcomes. Participants can achieve “must run” outcomes by pricing appropriately.
11	Options: detailed questions	
(a)	<p>All options:</p> <ol style="list-style-type: none"> 1. Why would market participants be allowed to plan to be out of balance? 2. How do models differ in ability to incorporate market based management of transmission constraints, e.g. locational pricing? 3. Would arrangements for non-scheduled generators be changed in each option? 4. Will it be facility or portfolio based for each option (Verve and IPPs)? How do each of the options handle portfolio flexibility? 5. Can fuel switching on the day be handled by each option? 6. Which of the options will allow a role for balancing hedge? 7. In each of the options, how late can gate closure be? 8. Will IPPs be forced to participate in the balancing market? 9. How is commitment covered under all the options? How would the commitment times 	<ol style="list-style-type: none"> 1. This is a design choice and allows for participants to choose to operate and take/receive the balancing price and may be commercially beneficial if they have opportunistic generation or uncertain demand. 2. Most easily accommodated under gross dispatch (given widespread application elsewhere). Subject to detailed design this could be possible under net dispatch. More problematic under hybrid arrangements. 3. The detailed mechanics may vary but the principle should be similar – that is non scheduled generation should see cost reflective market prices 4. This is a detailed design consideration but facility based balancing offers and dispatch would be typical features under option B or C. However, regular market forecasts and ability to revise offers provide inherent portfolio management flexibility for participants. 5. More readily under Options B and C. Fuel switching is likely to be important for reliable operation of the SWIS and should be accommodated in all options for that reason. However, on the day flexibility for all reasons will be better accommodated through market mechanism the later the gate closure, reducing the need for special purpose rules which inevitably add complexity and risk inadvertent outcomes. 6. In principle all options allow participants to enter into balancing hedges although balancing hedges are likely to distort outcomes where Verve is the sole balancer. 7. In principle, very close to real time under option B or C but there is likely to be a trade-off between gate closure time and participant/ market effort/ system requirements. See also 8 (a) 2 above. Under hybrid options, IPP self commitment and subsequent gross dispatch and

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	<p>interact with dispatch instructions?</p> <p>10. Without competitive fuel supply how can the market adapt/improve under any of the options?</p>	<p>central commitment of Verve resources limits gate closure to day ahead/ unit commitment timeframes. This is the subject of close investigation by the Market Rules Design Team.</p> <p>8. It is envisaged that participation in the balancing market be voluntary although that means Verve will need to be retained as the default balancer of last resort. Under option C (gross dispatch) participants that do not wish to actively participate in balancing would need to structure their offers accordingly.</p> <p>9. Hybrid as now. Under gross or net designs, the working assumption is that participants would make commitment decisions and reflect these in their resource plans (under B) and offers (B and C). Refer discussion of unit commitment issues in the Concept Paper.</p> <p>10. Fuel market arrangements are out of scope. Increased transparency, greater participation in balancing, cost reflective prices, efficient allocation of costs and investor confidence in the market are desirable outcomes.</p>
(b)	<p>Option A1/A2:</p> <p>1. Has the timing of gate closure (A1/A2 options) with BOM forecasts been considered?</p> <p>2. How do the hybrid options address efficiency/cost reflectivity?</p> <p>3. Can balancing be sufficiently addressed under the hybrid models?</p> <p>4. How are Ancillary Services being provided under enhanced hybrid (A) options?</p> <p>5. How far can we push options A1 and A2?</p> <p>6. How will the capacity refund issues be looked at in the hybrid solutions?</p> <p>7. Can nomination times and introduction of BSCs be treated separately (hybrid A1)?</p> <p>8. If go with hybrid option has the impact on IMO and participant resources been considered (ie double shifts)?</p> <p>9. Is the second nomination an incremental adjustment only? What components can be</p>	<p>1. Yes although timings at this stage are indicative only. The aim is to push gate closure as near as practicable to real time, taking into account unit commitment – work is underway to assess how late this can be</p> <p>2. Detailed changes are (hopefully) possible in a number of areas that will improve cost reflectivity including: for calculation of the balancing price, UDAP/DDAP and capacity refunds.</p> <p>3. Increased participation in balancing (through BSCs) and opportunities to reduce exposure to balancing (e.g. later submissions/ forecasts, renominations) should help but are unlikely to be as effective/ enduring as competitive balancing under gross or net designs.</p> <p>4. Yet to be considered fully. If either pathway 2 or 3 is selected, ancillary services arrangements would be developed as part of a net or gross design.</p> <p>5. Refer concept paper. Hybrid options may reduce balancing requirements (day ahead process improvements) and increase participation in balancing (BSCs). However, they cannot achieve fully competitive balancing and greater System Management/Verve Energy separation if these aspects are seen as desirable.</p> <p>6. See 2 (d) above.</p> <p>7. Yes. Although the need for balancing may be reduced if renominations and later gate closure are available.</p>

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	<p>changed (price or quantity, or both)?</p> <p>10. Are nominations binding or non-binding?</p> <p>11. What is the pre-dispatch forecast (hybrid A2)?</p>	<p>8. Resourcing implications will need to be assessed and factored into cost benefit assessments.</p> <p>9. This is a design detail to be resolved. However the intent is to provide an opportunity for renomination and minimise the overhead for parties choosing to present a stable/fixed profile.</p> <p>10. The aim is to fix a gate closure when nominations will become final but some limitations may need to put on renominations for example to narrow down the scope of changes – details are yet to be developed</p> <p>11. See 4 (b) above. Pre dispatch forecast would provide information back to the market about the consequences of the most recent (re-)nomination in order to allow the next renomination to be better informed and efficient. Details of the amount of information are still being developed but at the minimum it will include forecast of MCAP and each participants own forecast generation</p>
(c)	<p>Option B:</p> <p>What are the implications on existing bilateral contracts under options B and C?</p>	<p>See 3 (a) above.</p> <p>Option B or C will support bilateral contracts (i.e. allow for bilaterals to be priced into the market for dispatch). It is assumed that if any existing contracts need to be renegotiated this would occur during the transition to the new arrangement. For settlement purposes it is expected that net arrangements would continue.</p>
(d)	<p>Option C:</p> <p>1. Will NCP still be submitted in gross market?</p> <p>2. In a gross market how will net settlement be achieved?</p> <p>3. In a gross market does trading need to occur to reduce risk?</p> <p>4. What are the implications on existing bilateral contracts under options B and C?</p>	<p>1. Yes. See answer c) above. Details still to be decided</p> <p>2. Details still to be decided – however there are a number of markets around the world that use net settlement of a gross dispatch that can be studied. For example, the market could settle differences between actual and NCP quantity at the gross spot price.</p> <p>3. Active trading could reduce risks under all options. The gross option potentially increases exposure to balancing (being dispatched above or below NCP) but if the participant's offer prices were cost reflective, it should be indifferent or better off. In this regard, gross dispatch implies more active participation in market than net dispatch.</p> <p>4. See 3 (a) above.</p>