

**Independent Market Operator**  
**Reserve Capacity Mechanism Working Group**

**Minutes**

<b>Meeting No.</b>	4
<b>Location:</b>	IMO Boardroom Level 3, 197 St Georges Terrace, Perth
<b>Date:</b>	Tuesday 29 May 2012
<b>Time:</b>	Commencing at 2.00pm – 5.45pm
<b>Attendees</b>	
Allan Dawson	Chair
Suzanne Frame	IMO
Brendan Clarke	System Management
Andrew Sutherland	Market Generator
Brad Huppatz	Market Generator (Verve Energy)
Ben Tan	Market Generator
Shane Cremin	Market Generator
Corey Dykstra	Market Customer
Patrick Peake	Market Customer
Steve Gould	Market Customer
Stephen MacLean	Market Customer (Synergy)
Andrew Stevens	Market Customer/Generator
Jeff Renaud	Demand Side Management
Geoff Down	Contestable Customer
Justin Payne	Contestable Customer
Wana Yang	Observer (Economic Regulation Authority)
<b>Additional Attendees</b>	
Richard Tooth	Presenter (Sapere Research Group)
Mike Thomas	Presenter (The Lantau Group)
Aditi Varma	Minutes
Fiona Edmonds	Observer
Greg Ruthven	Observer
<b>Apologies</b>	
Paul Hynch	Observer (Public Utilities Office)

Wayne Trumble		Observer (Griffin Energy)
Item	Subject	Action
1.	<p><b>WELCOME AND APOLOGIES / ATTENDANCE</b></p> <p>The Chair opened the fourth meeting of the Reserve Capacity Mechanism (RCM) Working Group (RCMWG) at 2:05pm.</p> <p>The Chair welcomed the members in attendance and noted apologies from Mr Paul Hynch and Mr Wayne Trumble received prior to the meeting.</p>	
2.	<p><b>MINUTES ARISING FROM MEETING 3</b></p> <p>The following change was noted on Page 3:</p> <p><i>Mr Geoff Down observed that some level of <del>uncertainty</del> flexibility needs to be factored in dispatch decisions.</i></p> <p>The minutes were accepted as a true and accurate record of the meeting, subject to the aforementioned change.</p>	
3.	<p><b>ACTIONS ARISING</b></p> <p>Ms Suzanne Frame noted that work would be ongoing to assess the cost-effectiveness of proposed options for harmonisation (Action Item 2). Other action items were noted as completed.</p>	
4.	<p><b>PRESENTATION: Harmonisation of Demand Side and Supply Side Resources by Dr Richard Tooth, Sapere Research Group</b></p> <p>The Chair invited Dr Richard Tooth to present his paper.</p> <p>The following points of discussion were noted:</p> <ul style="list-style-type: none"> <li>On the issue of availability of DSM (Demand Side Management), Mr Corey Dykstra observed that Planned Outages of generators could not be equated to DSM's unavailability if dispatched because generators had already forecast the outage. Dr Tooth disagreed and noted that the effect on the market was the same in both situations i.e., facility not being available when needed.</li> <li>Mr Dykstra questioned if the Wholesale Electricity Market (WEM) had already matured with regard to DSM penetration. Mr Jeff Renaud noted that DSM penetration in most capacity markets in the US had plateaued at about 7-8% of total capacity. He added that the penetration in the WEM was similar although the uptake profile was steeper.</li> <li>On Proposal 1 (<i>DSP facilities may be dispatched outside of nominated availability limitations on a best efforts basis</i>), Mr Cremin mentioned that dispatching DSM on a best efforts basis in an emergency operating state did not qualify as harmonisation with generators. Dr Tooth argued that generators would also be expected to perform on a best efforts basis if they were on a Planned Outage and an emergency situation was experienced, i.e. with regards to being called back to service. He noted that a baseload facility could be requested to operate in excess of its maximum sent out capacity on a best efforts basis if required.</li> <li>On the topic of Hours of Availability, Mr MacLean queried if the 1-in-</li> </ul>	

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	<p>10 peak year event had been used to estimate dispatch events for DSM. He observed that the extent of generation availability on a day other than a 1-in-10 peak year event would be so much that it would minimise the need to dispatch DSM. Dr Tooth mentioned that the analysis included high demand days and Forced Outages and did not include generation availability.</p> <ul style="list-style-type: none"> <li>• Discussion ensued on the sufficiency of 15 dispatch events to provide System Management enough certainty while making dispatch decisions. Mr Cremin questioned if there was merit in considering unlimited dispatch events. Mr Renaud observed that there are two different approaches used to specify DSM dispatch conditions- first, a prescriptive approach based on historical data and second, identifying system operating conditions that would trigger DSM dispatch. He noted that the latter approach is used in other international markets. Mr Cremin added that every year system reliability conditions to dispatch could change and so an unlimited number of dispatch events should be the preferred approach. Dr Tooth added that unlimited number of dispatch events with clear guidelines for dispatch was a more reasonable approach.</li> <li>• Discussion ensued on how dispatch decisions are made currently when system reliability is under threat. Mr Clarke observed that System Management would use liquid plants before dispatching DSM. If there is a concern on fuel availability, then the order of dispatch would be different. The Chair noted that in high risk conditions, System Management would consider conservation of liquid inventory and DSP's may be dispatched before liquid plants. Mr Patrick Peake queried if System Management would hold generation or DSM as Spinning Reserve when system reliability was under risk to which Mr Clarke responded that generation would generally be held as Spinning Reserve.</li> <li>• On the Hours of Duration for DSM, Mr MacLean requested that information be provided on why other markets have more hours of duration. Mr Renaud observed that there might be learning's from other markets that could be used to WEM's benefit. He noted that hours of duration was a complex issue for a demand side aggregator because of the need to limit the duration of load curtailment for its customers, except in cases where a back-up generator was installed. He added that this issue was closely linked to the refund mechanism. He stated an example of non-performance penalty mechanism used in New York-ISO market. Mr Andrew Sutherland asked if this risk couldn't be spread across the aggregator's portfolio. Mr Renaud noted that analysis would need to be done on how an aggregator could reconstruct its portfolio to mitigate the risk.</li> <li>• Discussion ensued on System Management's decisions on dispatching DSM. Mr Ben Tan questioned if the risk of being dispatched at any time shouldn't lie with the DSP. Mr Renaud noted that the risk could be transferred to DSP and more flexibility provided to System Management as long as system conditions were set objectively. Discussion ensued on the system conditions needed to dispatch DSM. The Chair observed that in a high risk operating state, System Management could dispatch any capacity source in order to avoid involuntary load-shedding. Mr Mike Thomas added that in a fuel</li> </ul>	

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	<p>constrained situation, the issue is not capacity but energy.</p> <ul style="list-style-type: none"> <li>• Discussion ensued on how DSM's would cope with unlimited number of hours. Mr Renaud reiterated that unlimited number of dispatch events was not a problem however the system conditions needed for DSM dispatch would need to be stated clearly.</li> <li>• Mr Huppertz questioned if a similar analysis had been done for over the winter months as the Ready Reserve Standard are reduced in winter as Planned Outages occur predominantly during this time. He observed that System Management might not have the confidence to dispatch DSM if a fuel shortage happened in winter. The Chair noted that it would be worthwhile to conduct some analysis around the profiles of DSM during the winter months.</li> <li>• On Notice Period for DSM's, Mr Renaud noted that a day ahead notification with two hours notice period would be welcome as it would help DSP's to prepare to respond to a dispatch event. He added that the current four hours notice period regime was also acceptable and that if it was changed, a two hours notice period with day ahead notification would reduce dispatch risk.</li> <li>• On the Third Day Rule, Mr Renaud noted that System Management has the ability to dispatch different DSM facilities to meet the Third Day Rule. Discussion ensued on dispatching DSM in the non balancing merit order.</li> <li>• On the topic of participation of DSP in the Balancing Market, discussion ensued on the cost of dispatching DSP compared to the cost of dispatching thermal generators. Members discussed the concept of a dynamic baseline methodology. The Chair noted that DSM's participation in the balancing market should be kept as a separate stream of work and included in the Market Rules Evolution Plan.</li> <li>• Mr MacLean noted that differential capacity price for DSM and generators should be considered as an alternative option. Mr Renaud noted that such an approach has not worked in other markets. He gave examples of international markets where DSM participation was non-existent because a level playing ground with generators was not created. Members requested that some further information be provided so that this alternative could be assessed.</li> </ul> <p><i>Action Points:</i></p> <ul style="list-style-type: none"> <li>• <i>The IMO to conduct analysis of the profiles of DSPs during winter months.</i></li> <li>• <i>The IMO to present a clear set of recommendations for harmonisation of DSM with Market Generators.</i></li> <li>• <i>The IMO to provide to the Working Group for its consideration an overview of the experiences of international markets with differential capacity pricing</i></li> </ul>	<p></p> <p style="text-align: right;"><b>IMO</b></p> <p style="text-align: right;"><b>IMO</b></p> <p style="text-align: right;"><b>IMO</b></p>
<b>5</b>	<p><b>PRESENTATION: RCM Review Report-2 by Mr Mike Thomas, The Lantau Group</b></p> <p>The Chair invited Mr Thomas to present his paper.</p>	

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	<p>The following points of discussion were noted:</p> <ul style="list-style-type: none"> <li>• Mr Patrick Peake noted that if all capacity was uncontracted then the cost was pushed back on the providers of capacity rather than retailers.</li> <li>• Mr Dykstra noted his concern that the steeper slope for adjusting the Reserve Capacity Price did not indicate that a retailer would be pushed towards bilateral contracting. He offered a retailer's perspective on contracting for capacity and energy to meet the Individual Reserve Capacity Requirement and noted that the Maximum Reserve Capacity Price (MRCP) was not relevant to a retailer's contracting behaviour. Mr Thomas noted that the fundamental issue was the value of capacity to the market when there is excess capacity available.</li> <li>• Mr Cremin noted that manipulating the slope to create a market-based pricing mechanism would not create an entry barrier for new capacity. He offered that a ceiling and a floor price would be better suited to incite contracting behaviour among retailers, so that retailers contract for the amount of capacity they need and all the excess capacity is priced at the floor price. Mr MacLean noted that Mr Cremin's proposal did offer a non-zero solution. Mr Cremin added that it was important to minimize volatility by setting a floor price. Mr Stevens observed that Mr Cremin's proposal suggests incentivizing retailers to contract bilaterally thereby signalling the amount of capacity that enters the market. Mr Cremin further observed that the current mechanism is such that retailers are choosing not to contract bilaterally as the higher the uncontracted capacity, the greater the excess capacity adjustment is and the cheaper it is for retailers to procure capacity from the IMO cheaply.</li> <li>• Mr Dykstra noted that the market design was envisaged as a bilateral contracting market and modifications had been made since market start in response to various levels of capacity. In his opinion, The Lantau Group's proposal offered another modification to deal with the current situation. It did not offer sufficient proof that a disincentive for new capacity would be created. He added that the group should consider revisiting the original set of issues and outcomes before concurring that the proposed solution was the way forward.</li> <li>• Discussion ensued on the proposed solution being an interim solution to deal with the excess capacity currently present in the market.</li> <li>• Mr Dykstra noted that Synergy being the largest retailer was the only one with the incentive to contract for energy. Other retailers being too small would take a conservative view and rely on the IMO's mechanisms to procure capacity. Mr Huppatz and Mr Cremin agreed with that point. The Chair noted that going forward and at the appropriate time the IMO would like to create appropriate signals for entry of capacity into the market when it was needed. Mr Tan noted that the proposed solution does not provide any correcting investment signal to capacity that enters the market with no intention of contracting. Discussion ensued on the use of price mechanism versus a spigot control mechanism. Mr MacLean observed that the proposed approach would deal transitionally with excess capacity currently present in the market.</li> <li>• The Chair noted that the proposal had been canvassed with the IMO</li> </ul>	

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	<p>Board and the sentiment was that a slope of 3.25 might not provide a strong enough price signal. He noted that the IMO Board would favour a sharper signal.</p> <ul style="list-style-type: none"> <li>• Members discussed the implications of the proposed approach. Mr Peake noted that a sharper signal would not be very welcome to investors in generation. Mr Dykstra reiterated that the proposal did not offer any incentive to contract bilaterally and that it was important to review expectations of outcomes. Mr MacLean noted that the group needed more time to evaluate possible options before coming to a conclusion. Mr Tan also noted his disagreement with the sharper signal approach and requested further work-shopping on this matter.</li> <li>• Members requested that a workshopping session be held where potential proposals would be evaluated.</li> </ul> <p><i>Action Points:</i></p> <ul style="list-style-type: none"> <li>• <i>The IMO to organise a workshop for RCMWG Members to evaluate alternative proposals to deal with the oversupply of capacity.</i></li> </ul>	<b>IMO</b>
<b>6</b>	<p><b>CLOSED</b></p> <p>The Chair postponed the agenda item on Dynamic Refunds to the next meeting due to lack of time and thanked all members for attending the meeting. The Chair declared the meeting closed at 5.45 pm.</p>	