

Independent Market Operator

Market Advisory Committee

Minutes

Meeting No.	17
Location:	IMO Board Room Level 3, Governor Stirling Tower, 197 St Georges Terrace, Perth
Date:	Wednesday 11 February 2009
Time:	Commencing at 2.00pm until 4.00pm

Attendees		
Allan Dawson	IMO	Chair
Troy Forward	IMO	Member
Arian Lowe	IMO	Minutes
Ken Brown	System Management	Member
Corey Dykstra	Alinta	Proxy for Kristian Myhre
Shane Cremin	Griffin Power	Member
Rob Pullella	Economic Regulation Authority (ERA)	Observer
Chris Brown	ERA	Observer
Andrew Everett	Verve Energy	Member
Peter Huxtable	Water Corporation	Member
Geoff Gaston	Perth Energy	Proxy for Ky Cao
Jason Banks	Office of Energy	Member
Steve Gould	Landfill Gas & Power	Member
Apologies		
Jenni Conroy	Synergy	Member
Peter Mattner	Western Power Corporation	Member
Also in attendance		
Jacinda Papps	IMO	
Magnus Stensson	IMO	
Fiona Edmonds	IMO	

Item	Subject	Action
1.	WELCOME The Chair welcomed representatives from the Australian Energy Market Commission (AEMC) and Frontier Economics (Frontier) to the Market Advisory Committee (MAC) meeting. AEMC and Frontier were invited to present recent work that they have both undertaken.	
2.	AEMC AND FRONTIER PRESENTATIONS	

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	<p>Frontier Presentation: Climate change policy impacts on Western Australian energy market structures and frameworks:</p> <p>It was noted that Frontier was engaged by the AEMC in September to assist with the review of climate change policy impacts on energy markets, Frontier's tasks were to:</p> <ul style="list-style-type: none"> • Summarise existing energy market structures and arrangements in Western Australia and the Northern Territory; and • Identify and explain likely impacts of Carbon Pollution Reduction Scheme (CPRS) and enhanced Renewable Energy Target (RET). <p>Frontier reported their findings to the AEMC in November 2008. Frontier presented the MAC with their main findings regarding the impacts for Western Australia.</p> <ul style="list-style-type: none"> • Fuel-shifting due to CPRS may be slower in Western Australia than the National Electricity Market (NEM) due to higher gas prices in Western Australia; • Substantial wind investment expected due to expanded RET (and CPRS in the long term); • More wind raises system security, reliability, dispatch efficiency and cost allocation issues; and • Both CPRS and expanded RET have implications for regulated retail tariffs and future prospects for retail competition. <p>AEMC presentation: Review of energy market frameworks in light of climate change policies:</p> <p>It was noted that the focusing questions for the AEMC review were:</p> <ul style="list-style-type: none"> • Will existing energy market framework continue to promote efficient, reliable outcomes in response to the incentives from CPRS and expanded RET? • If not, how can energy market frameworks be reformed to promote desired outcomes more effectively? <p>It was noted that key issues needing to be progressed in Western Australia were:</p> <ul style="list-style-type: none"> • Managing dispatch with intermittency; • Network extensions for remote renewables; • Congestion management and transmission access/planning; and • Flexibility of retail price regulation. 	

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	<p>It was noted that the following framework elements were considered resilient:</p> <ul style="list-style-type: none"> • Ability of gas markets to deliver and trade required volumes; • Managing reliability in the short term; and • Signals for investment to meet required reliability standards. <p>MAC members were requested to submit on the AEMC's findings. Members were reminded that consultation on the 1st Interim Report closes 20 February 2009.</p> <p>Additionally, AEMC noted that the proposed approach for Western Australia is to:</p> <ul style="list-style-type: none"> • Identify which issues, that they have decided to progress, can be addressed by existing work programmes; • Understand how most effective use can be made of their resource, where there is a gap; and • Propose regular co-ordination meetings over remainder of the project. <p>IMO to circulate the presentations to MAC members and the Market Rules Evolution Plan to the AEMC.</p>	IMO
3.	<p>MEETING WELCOME AND APOLOGIES / ATTENDANCE</p> <p>Noted Corey Dykstra as a proxy for Kristian Myhre.</p> <p>The Chair opened the MAC meeting at 2:35pm and welcomed members to the seventeenth meeting of the MAC.</p>	
4.	<p>MINUTES OF PREVIOUS MEETING</p> <p>The Minutes of MAC Meeting No. 16 held on 10 December 2008 were circulated prior to this meeting.</p> <p><i>The MAC accepted the minutes of the 10 December 2008 meeting as a true and accurate record, subject to the following amendment on page 4 (new words):</i></p> <p>Griffin proceeded to summarise the key points of its rule change proposal pointing out that the main tenet of risk management is to pass on a risk to the entity which can best manage it. <u>However, in some cases, the cost of managing such risk (even if borne by the party best able to carry this risk) is an inefficient cost as it might outweigh the benefits.</u></p>	
5.	<p>ACTIONS ARISING</p> <p>All actions arising were either complete or on the meeting agenda apart from the following:</p>	

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	<p>Market Rules Walkthrough, whereby IMO staff will review and discuss each rule in turn over the coming year.</p> <p>The IMO informed MAC members that they may witness a significant change in the number of potential rule changes to be progressed as a result of the integration of market participants' ideas as well as any suggested improvements to the rules borne out of the IMO's Market Rules Walkthrough series.</p>	
	<p>(ii) PROVISION OF INTERMITTENT GENERATOR FORECAST INFORMATION</p> <p>System Management presented the pre-rule change discussion paper. It was noted that under the current Market Rules, Intermittent Generators must provide data to System Management, which represents aggregated energy output, by 10am on the Scheduling Day.</p> <p>However, System Management currently does not use this data and instead makes use of material obtained under separate arrangements. Nevertheless, the provision of this information may be required at some stage and so System Management proposes to retain it albeit with the inclusion of an element of discretion on the part of System Management.</p> <p>It was noted that the NEM is currently putting a lot of resource into developing its forecasting techniques and that System Management is looking at ways to piggyback off this work. System Management is also working with the Bureau of Meteorology to enhance forecasting techniques and is investigating ways of undertaking such forecasting in a centralised manner.</p> <p>MAC agreed that the proposed rule change be formally submitted by System Management.</p>	<p>SM</p>
	<p>(iii) CONFIDENTIALITY OF ACCEPTED OUTAGES</p> <p>System Management presented the pre-rule change discussion paper. It was noted that this proposed rule change has come about in order to allow Western Power Networks to view scheduled outages so that they can use this information to schedule transmission outages at the same time.</p> <p>Scheduled outages (i.e. accepted but not approved outages) form part of the SWIS Restricted Information and as such, are unable to be viewed by any market participant, including Western Power Networks.</p> <p>Making this information available to Western Power Networks will facilitate the coordination of network and generation outages and eliminate the inefficiency associated with facilities being forced to reduce capacity in response to a transmission outage.</p> <p>The Chair raised the question whether this information should</p>	<p>SM/IMO</p>

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	<p>be made available to other market participants as well as Western Power Networks.</p> <p>The Chair suggested that it would be valuable to canvass generators' views in order to assess whether the scheduled outage information should be available to just Western Power Networks or all Rule Participants, and whether a consequential amendment is needed for the "Confidentiality of Accepted Outages" rule change. The MAC supported the rule change progression pending the outcome of discussions with generators over the wording of the amending rules.</p>	
	<p>(iv) APPROVAL OF PROPOSED NEW, AMENDED, AND REPLACEMENT MARKET PROCEDURES</p> <p>The IMO presented the pre-rule change discussion paper. It was noted that this proposed rule change was procedural in nature and accordingly satisfied sub-clause 2.5.9(c) of the Market Rules allowing it to be fast-tracked.</p> <p>The MAC agreed that the proposed rule change be progressed via the fast-track process. The IMO to formally submit the "Approval of proposed, new, amended and replacement Market Procedures" rule change.</p>	IMO
	<p>(v) CERTIFIED RESERVE CAPACITY PROCESS RULE CHANGE PROPOSAL</p> <p>The IMO advised that, as a result of the wash-up of the previous Reserve Capacity Cycle, a number of rule and procedure changes were required to enable the reserve capacity process to run more smoothly. To this effect, it is intended that both a rule and procedure change proposal will be drafted in the coming weeks and submitted to MAC for discussion at the March MAC meeting. It was noted that the proposed changes are a general clarification of issues and are intended to make the process easier.</p> <p>IMO to formally submit the "Application for Certification of Reserve Capacity" rule change and associated procedure change proposal and add these to the March MAC meeting agenda for discussion.</p>	
6b.	STATUS UPDATES – WORKING GROUP UPDATE	
	<p>(I) OVERVIEW</p> <p>The IMO gave a brief status update on each of the active working groups.</p> <p>IMO Procedures Working Group:</p> <p>It was advised that the IMO Procedures Working Group would be reconvened soon as there were a number of IMO Procedures which would benefit from being discussed in this</p>	

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	<p>forum.</p> <p>Renewable Energy Generation Working Group:</p> <p>It was noted that this group had not met regularly, but that a lot of work has been undertaken behind the scenes.</p> <p>Firstly, Sinclair Knight Merz (SKM) has been contracted to develop a scope of works. This scope of works is to define a programme of works in order to assess the issues and implications regarding high penetration of Intermittent Generation in the WEM.</p> <p>Secondly, it was noted that the Office of Energy has contracted Econnect to assess the Capacity Credit mechanism for Intermittent Generation. It was noted that a draft report would be available by the end of February or start of March.</p>	
	<p>(II) RESERVE CAPACITY MECHANISM WORKING GROUP</p> <p>The IMO explained that the Reserve Capacity Mechanism Working Group was convened in order to discuss the merits of Griffin Energy's rule change proposal (RC_2008_35), on the impact of the capacity refund mechanism on new generators, against the Wholesale Market Objectives.</p> <p>It was advised that the group had devised a series of questions to aide in its assessment of the proposal and to reveal the pros, cons, advantages and disadvantages of implementing this rule change proposal. It was noted that the working group did not reach unanimous agreement on the merits of the rule change vis-a-vis the market objectives. On balance, the working group concluded that there seemed to be little net change, or no clear benefit to the market as a whole if this rule change were to proceed.</p> <p>Griffin maintained that although the benefits derived from implementing the rule change may only be marginal, in its opinion the proposal satisfies the market objectives and hence should be progressed on that basis.</p> <p>It was noted that a significant amount of effort from the industry had already taken place in developing this area of the rules and that there was a concern around the potential regulatory risk if these rules were amended again. A member questioned the viability of making a change when there is nothing materially wrong with the reserve capacity refund mechanism currently in place. Noting this, the IMO suggested that this could be added to the participant issues log and prioritised appropriately by the MAC against all issues.</p> <p>The Chair congratulated the working group for working through the issues.</p> <p>Members suggested that the IMO obtain a separate economic</p>	

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	review of this work, similar to that undertaken for RC_2008_27. The IMO advised that it will discuss with its Board as to whether an external consultant is required to provide an impartial report on the matter.	IMO
6c.	<p>STATUS UPDATES – PROGRESS AGAINST MARKET RULES EVOLUTION PLAN</p> <p>The IMO updated the MAC with the status of the market development reviews either underway or scheduled to be underway as part of the Market Rules Evolution Plan (Plan). The IMO advised that it will be undertaking a thorough review of the Plan with the intention of presenting the updated version at the April MAC meeting.</p> <p>Supplementary Capacity Provisions:</p> <p>In addition to the information provided in the paper, the IMO informed MAC members that MMA have been engaged to assist with the review of submissions received on RC_2008_34: Funding of Supplementary Reserve Capacity.</p> <p>A member requested that the members of the SRC Working Group be listed in the report. In addition to this, the Chair declared that a list of all members in all working groups would be made available to all MAC members in the near future.</p> <p>Ancillary Service Standards and Requirements Study:</p> <p>The IMO proceeded to provide a status update in relation to this study. It was advised that SKM had been commissioned on January 19 to undertake this study and that they were at the 'information gathering stage' now. It was noted that there is a possibility that a public workshop to present the draft report may be arranged.</p>	
6d.	STATUS UPDATES – PROCEDURE CHANGES	
	<p>(i) OVERVIEW</p> <p>The IMO gave a brief outline of the four recently commenced and upcoming IMO procedure changes. The IMO explained that this agenda item was for noting only.</p>	
	<p>(ii) CERTIFIED RESERVE CAPACITY PROCESS PROCEDURE CHANGE PROPOSAL</p> <p>This agenda item was addressed previously as part of agenda item 6a(v).</p>	
7a.	<p>CONCEPT PAPER: OVERVIEW</p> <p>The IMO gave a brief outline of the concept papers underway and those intended to be drafted in the future.</p>	

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7b.	<p>RESERVE CAPACITY APPLICATION TIMEFRAMES</p> <p>At the December MAC meeting it was determined that the IMO would further develop its concept paper regarding reserve capacity application timeframes. Two concepts were put forward for consideration:</p> <p>1) extending the timeframe associated with building projects:</p> <p>In order to provide additional security to project developers the original proposal sought to remove Conditional Certification and replace it with guaranteed Certified Reserve Capacity when a facility meets the eligible criteria. There was considerable support noted at the last MAC meeting and it was determined that a rule change be drafted. However, post MAC, members were invited to provide additional comments. Alinta questioned whether the changes proposed would provide financiers with any greater certainty than already exists under the existing arrangements.</p> <p>The IMO noted that the concept of Conditional Certification remain, and, as previously proposed, a new concept of receiving early certified reserve capacity be added to the rules. It was noted that ECRC is “normal” CRC, except that it is to be approved earlier than current timeframes allow. This is still contingent on facilities being committed.</p> <p>A member asked the IMO to consider whether it is unreasonably onerous to require a facility to be under construction before it can apply for ECRC and also require it to file the security deposit before it is granted CC. It was noted that this was to replicate the existing provisions for normal CRC.</p> <p>It was decided that the IMO would proceed with the drafting of a rule change proposal which extends the timeframe allocated for building projects in time for either the March or April MAC meeting.</p> <p>2) Changing the window of entry:</p> <p>At the December MAC meeting, the IMO was asked to consider the potential for introducing a scaling mechanism for payment and assess the impact of early entry on other parts of the supply chain.</p> <p>With respect to implementing a scaling mechanism for payment, the IMO identified several possible scenarios. The IMO’s overall conclusion was that there may not be sufficient benefit in instigating a scaling mechanism for payments due to a number of reasons not least because of the added complexity that such a mechanism brings. IMO to seek Synergy’s views on the IMO’s conclusions not to introduce a scaling mechanism for payments as part of the “Reserve Capacity Applications: Changing the window of entry” concept.</p>	<p>IMO</p> <p>IMO</p> <p>IMO</p>

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	<p>Following the December MAC meeting, Alinta suggested that the window of entry be truncated so that it spans only two months. The IMO presented the analysis of this in the revised concept paper. The IMO noted that it did not support this idea due to the reduction in flexibility in entering the market and would fail to incentivise earlier entry to the market than under the current arrangements.</p> <p>Accordingly, the IMO recommended the original proposal of shifting the window of entry to 1 June and 1 October be retained.</p> <p>It was agreed that the IMO draft a rule change proposal incorporating these recommendations for either the April or May MAC meeting.</p>	IMO
8.	<p>OTHER MATTERS</p> <p>a) PSOP Working Group update:</p> <p>It was agreed that System Management add LGP to the membership of the Power System Operating Procedure Working Group.</p> <p>b) Commissioning Tests and Resource Plan Compliance – Late Commissioning (presentation)</p> <p>The IMO presented a paper covering:</p> <ul style="list-style-type: none"> • Late commissioning tests: a proposal to amend the treatment of Facilities when commissioning; and • Resource Plan compliance during late commissioning. <p>The IMO advised that they would distribute the presentation following the meeting.</p> <p>It was noted that currently Commissioning Tests can only be approved for new facilities (before 30 November) and for facilities returning from significant maintenance. This means that a new unit commissioning after 30 November must operate and technically commission in the energy market either bilaterally or through the STEM. In this case a Facility's resultant resource plans would mimic its commissioning schedule and any deviations would be subject to UDAP and DDAP payments. Additionally, deviations may be subject to compliance and enforcement issues for deviating from their resource plan.</p> <p>With regards to late commissioning tests, the IMO proposed:</p> <ul style="list-style-type: none"> • A separation of the treatment of commissioning in the Reserve Capacity Market and the Energy Market; and • The introduction of a late commissioning concept. In particular, new generators can conduct commissioning 	IMO

