

Independent Market Operator

Market Advisory Committee

Minutes

Meeting No.	16
Location:	IMO Board Room Level 3, Governor Stirling Tower, 197 St Georges Terrace, Perth
Date:	Wednesday 10 December 2008
Time:	Commencing at 2.00pm to 4.00pm

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

Item	Subject	Action
1.	WELCOME AND APOLOGIES / ATTENDANCE Noted apologies from Peter Mattner and Jason Banks. The Chair opened the meeting and welcomed members to the sixteenth meeting of the Market Advisory Committee (MAC).	Chair

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2.	MINUTES OF PREVIOUS MEETING / ACTIONS ARISING <p>The Minutes of MAC Meeting No. 15, held on 8 October 2008, were circulated prior to this meeting.</p> <p>Members adopted the Minutes of Meeting No. 15 as a true and correct record.</p>	Chair
3.	STATUS UPDATES A: MARKET RULE CHANGES IN PROGRESS: OVERVIEW <p>The MAC noted the overview of Market Rule Changes currently in progress.</p> <p>The Chair noted that the IMO will be undertaking a thorough review of the IMO Rule Change Log and will present for discussion at the February 2009 MAC meeting.</p>	IMO
	B: WORKING GROUP UPDATE <p>The MAC noted the Working Group Update. In particular:</p> <ul style="list-style-type: none"> It was advised that the Renewable Energy Generation Working Group is chaired by the Office of Energy (OoE) and that the terms of reference for the group have been drafted. The IMO and OoE has contracted Sinclair Knight Mertz to develop a scope of works to identify and address the various issues that may arise under conditions of high penetration levels of windfarms within the SWIS. It was advised that the Reserve Capacity Working Group (RCWG) has been reconvened in response to Griffin's rule change proposal to amend the capacity refund table. It was noted that the RCWG would need to work quickly in order for the previously published rule change timeframes to be met. It was noted that the participants in the RCWG consisted of those members who participated during the first round with the addition of some new participants, most notably new entrant generators, Griffin Energy and NewGen. One MAC member requested that they be permitted to sit on the RCWG. The Chair welcomes their attendance. It was advised that the terms of reference for the RCWG would be circulated to MAC members for their perusal and comments within the next few days. 	IMO IMO
	C: PROGRESS AGAINST MARKET RULES EVOLUTION PLAN <p>The MAC noted the Market Rules Evolution Plan (Plan)</p>	IMO

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	<p>progress report. The IMO advised that there are some changes within the IMO, both strategic and structural. As a result of this the IMO is revisiting the Plan in order to create a robust framework with key milestones, deliverables and resource mapping to ensure delivery of future Market Development Reviews. It was noted that the amended Plan will be presented to the March MAC meeting.</p> <p>In terms of progress to date on the Plan the following was discussed:</p> <ul style="list-style-type: none"> • <i>Supplementary Capacity Provisions:</i> The IMO advised that the three rule change proposals 27, 28 and 34, are well underway. It was noted that a workshop was held on 14 November 2008 to review the issues from the first round of submissions on rule change 27 and to provide input into the MMA review. • <i>Ancillary service standards and requirements study:</i> The IMO advised that this study has been initiated. A request for tender is currently underway to appoint a consultant to conduct the study. The IMO noted that the timeframe for completing this study has been extended through to June 2009. • <i>Intermittent Load Provisions:</i> The IMO noted that this work has not been initiated and has yet to be rescheduled. • <i>Prudential requirements and default provisions:</i> The IMO advised that the timeframe for completion of this review be extended to September 2009. The IMO advised that a paper will be submitted for discussion at the April MAC meeting. • <i>Reserve Capacity Application Timeframes:</i> The IMO noted that this review was initiated early and that a concept paper on this subject is to be discussed at today's meeting. 	
4.	MARKET RULE CHANGES IN PROGRESS: DETAIL	
	<p>RC_2008_35: CAPACITY CREDIT REFUND MECHANISM</p> <p>This rule change proposal, submitted by Griffin Energy, was distributed among MAC members prior to the meeting. The Chair noted that the original rule change proposal requested that this rule change be progressed via the fast track mechanism. The Chair noted that Rule Change did not meet the criteria to be fast-tracked. In order to promote transparency in its decision making processes, the response to Griffin Energy's request was attached to the MAC papers.</p> <p>The IMO noted that given the complexity of the rule change it was determined that the RCWG be reconvened to ensure that</p>	

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	<p>sufficient consideration be given to the complexities and financial implications associated with the proposal.</p> <p>It was agreed that detailed discussion on the rule change proposal should be reserved for the RCWG.</p> <p>It was noted that since the rule change proposal was being progressed via the standard process rather than the fast track process as requested, there would be more time available to analyse the complexity of the proposal and assess its impact on the operational efficiency of the market.</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> <p>The IMO advised that the rule change notice associated with Griffin's rule change proposal had incorrect submission details. The IMO informed MAC that the error would be corrected immediately.</p>	IMO
5.	PRE RULE CHANGE DISCUSSION PAPERS	
	<p>A. CAPACITY CREDITS FOR SOLAR FACILITIES</p> <p>Synergy advised that the rule change proposal would lay the groundwork for the Renewable Energy Generation Working Group.</p> <p>Synergy advised that the pre-rule change discussion paper seeks to change the clauses in the market rules back to their original form which relate to setting certified reserve capacity.</p> <p>Synergy stated that this is a 'technology-specific' rule change proposal which endeavours to reinstate the arrangements under previous rules which would be more appropriate for the application of the certification process to solar power station facilities.</p> <p>The IMO queried the robustness of the prediction methods involved in calculating renewable generation output.</p> <p>One MAC member raised the point that solar power is an excellent source of renewable energy in summer but this is not necessarily the case throughout the year.</p> <p>The MAC agreed that this rule change progressed. Synergy advised that they would submit a formal rule change proposal the next day.</p>	SYNERGY
	<p>B. CORRECTION OF MINOR AND TYPOGRAPHICAL ERRORS</p> <p>The IMO explained that this pre-rule change discussion paper</p>	

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	<p>consisted of three minor corrections to the market rules. The IMO advised that since it satisfies sub-clause 2.5.9(a), the paper could be fast-tracked.</p>	
	<p>C. LEAST COST DETERMINATION OF ANCILLARY SERVICES' CONTRACTS</p> <p>The Chair welcomed Phil Kelloway, attending from System Management to present the paper.</p> <p>This pre-rule change discussion paper related to the determination of least cost with respect to Market Rule 3.11.8(b).</p> <p>System Management requested that this rule change be progressed under the Fast Track Rule Change Process, on the basis that the requirements of clause 2.5.9(b) are met. The IMO advised that the rule change proposal did not satisfy the requirements of clause 2.5.9(b). The IMO noted, however that this solution proposed may be an improvement and therefore worthy of consideration but via the standard rule change process.</p> <p>System Management noted that the paper was intended to bring the issue of competitive procurement of ancillary services to the attention of the MAC. It was noted that System Management is actively looking at ways to facilitate competitive procurement.</p> <p>System Management advised that clause 3.11.8(b) does not set out how minimum cost is to be calculated and that this was the main impediment. The paper recommends that MCAP be used rather than pay-as-bid cost however one is unable to forecast MCAP since fixed-cost bidding is precluded.</p> <p>System Management noted that they see merit in potentially engaging a working group for further discussion and analysis.</p> <p>The ERA noted that System Management faces difficulties in being able to carry out its obligation of ensuring cost minimisation when it procures ancillary services on behalf of the market.</p> <p>The ERA suggested that it may be more effective and efficient from a market perspective for such a task to be undertaken by the IMO, noting that the IMO has particular expertise in the procurement of services for the market and for administering the reserve capacity mechanism.</p> <p>The Chair advised that at present, if such a change were agreed to, the IMO is not appropriately resourced to undertake this role. Additionally the Chair noted that the technical determination of ancillary services should remain with System Management as they have the required expertise.</p> <p>One MAC member noted that the procurement role is a costly proposition, as it is both time and resource intensive. The member was of the view that the market is not at a point in</p>	<p>SYSTEM MANAGEMENT</p>

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	<p>which it could sustain the IMO undertaking this role.</p> <p>The MAC agreed that:</p> <ul style="list-style-type: none"> the rule change be progressed via the standard process; the IMO consider initiating a working group to discuss the competitive procurement of ancillary services further; and The IMO, System Management and the ERA meet to discuss who is best placed to undertake the role of procuring ancillary services in greater detail. 	
	<p>D. NOTIFICATION OF SYNCHRONISATION AND DESYNCHRONISATION</p> <p>System Management outlined that this pre-rule change discussion paper intends to modify the Market Rules so that notification five minutes prior to synchronisation or desynchronisation is not required if it is to occur as notified at one hour prior.</p> <p>System Management requested that this rule change be progressed under the Fast Track Rule Change Process, on the basis that the requirements of clause 2.5.9(a) are met. The IMO advised that the rule change proposal did satisfy the requirements of clause 2.5.9(a), therefore advised that the rule could be fast tracked.</p> <p>MAC members approved that the paper be progressed via the fast-track process. System Management to submit a formal rule change proposal.</p>	SYSTEM MANAGEMENT
6.	CONCEPT PAPERS	
	<p>RESERVE CAPACITY APPLICATION TIMEFRAMES</p> <p>The IMO presented the key points of the concept paper in a PowerPoint presentation.</p> <p>In short, the paper analysed the merits in:</p> <ul style="list-style-type: none"> extending the timeframe associated with building projects (currently 28 months); and Changing the timeframes in which a proponent can enter the market before it incurs capacity cost refunds. <p><i>Timeframe extension:</i> All MAC members expressed support for extending the timeframe associated with building projects, allowing long lead time projects to secure capacity credits earlier.</p> <p>A member noted that it is a good general concept to encourage flexibility when there is no reason not to.</p>	IMO

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	<p>The IMO advised that it will now develop the rule changes required to facilitate this change.</p> <p><i>Window of entry into market:</i> The concept of changing the timeframes in which a proponent can enter the market before it incurs capacity cost refunds was discussed in great detail by the MAC.</p> <p>One MAC member queried the trade off between reliability and economic efficiency. The member noted that introducing a scaling mechanism for payment may have some merit.</p> <p>One MAC member made the point that regardless of whether a generator comes online 3, 6 or 9 months earlier, it is imperative that transmission lines are available to take up the additional capacity. Additionally, this member queried what incentives are in place to ensure that fuel and network contracts are also available early.</p> <p>MAC members discussed the role and impact of regulation on Western Power's Applications and Queuing Policy</p> <p>The IMO noted that the discussion around the concept paper was invaluable. To that end the Chair encouraged MAC members to consider the concept paper in more detail in the coming weeks and if required, arrange to meet with the IMO to discuss further.</p> <p>The IMO agreed to further develop the concept paper regarding the window of entry into the market. In particular:</p> <ul style="list-style-type: none"> • assessing the suggestion of introducing a scaling mechanism for payment; • considering fuel and network issues and what incentives are available to ensure that they are in place when required; and • Assessing how potential early entry may impact on other parts of the supply chain i.e. transmission. 	
7.	OTHER MATTERS	
	<p>A. OVERVIEW OF PROCEDURE CHANGES</p> <p>The IMO advised that it has recently initiated an internal review of its obligations under the Market Rules. Internal records indicated that the IMO has been failing to inform the MAC of the publication of Procedure Change Proposals since August 2008 as required under Market Rule 2.10.8. The IMO has logged a breach of this in its compliance log.</p> <p>The IMO noted that from now on it will advise the MAC within one business day of the publication of a new or amended</p>	IMO

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	procedure. The IMO added that a brief overview of current Procedure Changes will be provided as a standing item on the MAC agenda.	
	B. MAC MEETING DATES FOR 2009 The MAC meeting dates for 2009 have been confirmed.	IMO
8.	NEXT MEETING Scheduled for 11 February 2009.	Chair
9.	CLOSED The Chair declared the meeting closed at 3.45pm.	Chair