

## Independent Market Operator

### Market Advisory Committee

## Minutes

<b>Meeting No.</b>	26
<b>Location:</b>	IMO Board Room Level 3, Governor Stirling Tower, 197 St Georges Terrace, Perth
<b>Date:</b>	Wednesday 10 February 2010
<b>Time:</b>	Commencing at 2.00- 3.30 pm

Attendees	Organisation	Class	Comment
Allan Dawson	Independent Market Operator		Chair
Troy Forward	Independent Market Operator	Compulsory- IMO	
Wendy Ng	Verve Energy	Compulsory- Generator	
Neil Gibbney	Western Power	Compulsory- Network Operator	Proxy
Phil Kelloway	System Management	Compulsory- System Management	Proxy
John Rhodes	Synergy	Compulsory- Customer	Proxy
Steve Gould	Landfill Gas & Power	Discretionary- Generator	
Shane Cremin	Griffin Power	Discretionary- Generator	
Corey Dykstra	Alinta	Discretionary- Customer	
Peter Huxtable	Water Corporation	Discretionary- Contestable Customer Representative	
Geoff Gaston	Perth Energy	Discretionary- Customer	Proxy
Chris Brown	Economic Regulation Authority	Observer- ERA	
Matthew Martin	Office Of Energy	Observer/Minister's appointee	Proxy
<b>Also in attendance</b>			
Monica Tedeschi	Independent Market Operator		Minutes
Jacinda Papps	Independent Market Operator		
Fiona Edmonds	Independent Market Operator		
Jenni Conroy	Future Effect		Presenter
<b>Apologies</b>			
Peter Mattner	Western Power	Compulsory	
Ken Brown	System Management	Compulsory	
Anne Hill	Office Of Energy	Compulsory	
Stephen MacLean	Synergy	Compulsory	
Ky Cao	Perth Energy	Discretionary	

Item	Subject	Action
1.	<b>WELCOME</b>  The Chair opened the meeting at 2:05pm and welcomed members to the 26 <sup>th</sup> meeting of the Market Advisory Committee (MAC).	

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	<p>The Chair welcomed Monica Tedeschi employed as part of the inaugural IMO Graduate Program. The Chair noted that Monica will work initially with the Market Development team under Troy Forward. Over the next twelve months Monica will spend time with each of the IMO's operational areas to gain a full understanding of the organisation.</p>	
2.	<p><b>MEETING APOLOGIES / ATTENDANCE</b></p> <p>Apologies were received from:</p> <ul style="list-style-type: none"> <li>• Peter Mattner (Western Power);</li> <li>• Ken Brown (System Management);</li> <li>• Anne Hill (OoE); and</li> <li>• Stephen MacLean (Synergy).</li> </ul> <p>The following other attendees were noted:</p> <ul style="list-style-type: none"> <li>• Jenni Conroy (Future Effect).</li> </ul>	
3.	<p><b>MINUTES OF PREVIOUS MEETING</b></p> <p>The Minutes of MAC Meeting No. 25, held on 10 December 2009, were circulated prior to this meeting. The Chair invited comments.</p> <p>Alinta noted the following amendments for page 6:</p> <ul style="list-style-type: none"> <li>• the first action point to state 'at Western Power's expense'; and</li> <li>• the last action point to be actioned by the OoE and not the IMO.</li> </ul> <p>The minutes, as amended, were accepted by MAC members as a true and accurate record of the 10 December 2009 meeting.</p> <p>The minutes of the MAC special meeting, held on 20 January 2010, were also circulated for review prior to this meeting.</p> <p>The Chair noted that the ERA had requested that Chris Brown's apology for the Special Meeting be noted in the minutes. The ERA also suggested a number of minor and typographical changes to improve the integrity of the minutes, which the IMO noted it will adopt.</p> <p>The Chair invited additional comments. No additional comments were received.</p> <p>The minutes, as amended, were accepted by MAC members as a true and accurate record of the Special meeting.</p> <p><i>Action point: The IMO to amend and publish the Minutes of MAC Meeting No. 25 and the Special Meeting as final.</i></p>	<p><b>IMO</b></p>

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4.	<p><b>ACTIONS ARISING</b></p> <p>The actions arising were either complete or on the meeting agenda. The following exceptions were noted:</p> <ul style="list-style-type: none"> <li>• Items 107 – 111: Various action points related to PRC_2009_37 Equipment Tests - System Management advised that it was still working on the proposed rule change.</li> <li>• Item 121: Investigation into whether the 85% scaling factor is still appropriate for the MRCP – The IMO advised that this will be included as part of the major review of the MRCP.</li> <li>• Item 123: OoE to prepare an issues paper on the Network Control Services (NCS) issue early 2010. OoE advised that this will be delivered following the NCS meeting on 17 February 2010.</li> <li>• Item 124 – OoE to circulate its advice on Ravensthorpe to the IMO, Synergy, Perth Energy and Alinta - OoE noted that the IMO had been provided this advice. The IMO was uncertain whether it had been received and agreed to investigate this.</li> </ul>	<b>IMO</b>
5	<p><b>OATES REVIEW UPDATE</b></p> <p>The Chair reported that three submissions had been received on the overview of Market Rules Implementation discussion and information paper (presented by Mr Greg Thorpe at the MAC Special Meeting held 20 January 2010). The IMO noted that the submissions had been circulated to Mr Thorpe and Mr Peter Oates.</p> <p>The Chair noted the following points with regards to the progress of the implementation discussions:</p> <ul style="list-style-type: none"> <li>• The first workshop was held on 21 January 2010. In attendance was Mr Thorpe, Allan Dawson (IMO), Troy Forward (IMO), Jim Truesdale (Concept Consulting), and Phil Kelloway (System Management);</li> <li>• The second workshop was held on 10 February 2010;</li> <li>• The third workshop will be held on 11 February 2010;</li> <li>• From now until June 2010, there will be two half day workshops every two weeks; and</li> <li>• The first Concept Paper will be prepared for the March MAC.</li> </ul> <p>The Chair advised that the group would provide regular updates and seek comments on these from the MAC.</p> <p>In addition the IMO noted the status of the two other pieces of work</p>	

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	<p>being undertaken as part of the wider Oates review. In particular the IMO advised:</p> <ul style="list-style-type: none"> <li>• Vesting Contract review: This process is currently underway. It was noted that Synergy, Verve, OoE and the Oates Review Implementation team are currently working through the issues. In particular, OoE noted that to date there has been three meetings which outlined several Vesting Contract scenarios, which are being reviewed by the project team; and</li> <li>• Generation Outlook: It was noted that this process is just beginning.</li> </ul> <p>The Chair invited additional comments and questions. No further comments were made.</p>	
6a.	<p><b>MARKET RULE CHANGE OVERVIEW</b></p> <p>The MAC noted the overview of market rule changes. In particular:</p> <ul style="list-style-type: none"> <li>• The annual review of margin values pre rule change paper will be presented by Verve Energy as part of this meeting; and</li> <li>• The IMO noted that currently there is nothing contentious in the Rules log.</li> </ul>	
6b.	<p><b>MARGIN VALUES ANNUAL REVIEW [PRC_2010_01]</b></p> <p>Verve Energy presented the Pre Rule Change Discussion Paper noting that the objective is to allow for the margin values to be updated annually and therefore better reflect actual operating conditions.</p> <p>Verve Energy noted that it had been surprised with the outcomes of the 2009 annual review of the margin values. However noted that three years, as currently prescribed under the Market Rules, is a long time for the margin values to be applicable.</p> <p>The Chair noted that the cost of Spinning Reserve is allocated to all Market Generators (including Verve Energy). During the first three years of the market Verve Energy was compensated approximately \$15m per year for providing Spinning Reserve services. Following the 2009 review this compensation is projected to increase to approximately \$40m per year (dependent on the amount of Spinning Reserve required) which is reflective of the large change in the margin values proposed by the IMO to the ERA. The final margin values to apply going forward are still to be finalised by the ERA.</p> <p>The Chair noted that the quantum of this change supports a move towards more frequent review of the margin values. Further the Chair noted that the costs associated with an annual review are approximately \$30,000 for the IMO and can currently be accommodated within the IMO's normal budgetary processes.</p>	

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	<p>Alinta noted that any parameters get affected by external factors and that in principle it has no issue with the Pre Rule Change Discussion Paper. However, Alinta stated its preference would be for this issue to be set aside until the broader issues around Ancillary Services are resolved via the Oates Review. Alinta did not consider that there was any urgency in making the proposed changes and that the proposal could be revisited if required.</p> <p>Griffin Energy commented that it considers the Spinning Reserve cost allocation methodology currently a complex calculation under the Market Rules, and in its opinion this rule change is potentially a risk to individual Market Generators.</p> <p>The IMO and Verve Energy both noted that the methodology for calculating the margin values or the cost allocation will not change as a result of this proposal. This proposal is simply adjusting the frequency of recalculating the margin values. In response, Alinta noted that the recent review had decreased the risk that the wrong values were currently being used in determining reparation for Ancillary Services.</p> <p>LGP noted that from an efficiency point of view the proposed changes may be negated by the broader outcomes of the Oates Review. LGP also noted the contra argument in that the outcomes of the Oates Review are still largely unknown and, as Verve Energy had identified that the impacts of less frequent review of the Margin Values as being significant the Rule Change Proposal should proceed. In particular, LGP noted the uncertainty around the contribution of carbon tax is likely to have a large impact on the appropriateness of the margin values in the future.</p> <p>LGP noted that the benefits of proceeding appear to outweigh the costs and the rule change, if implemented, would be relatively easy to administer.</p> <p>Verve Energy was in agreement with LGP and stated that the introduction of a carbon reduction scheme was a significant issue for it due to the uncertainty around it. Further Verve Energy noted that if the Margin Values are not reviewed more frequently, it considers that there is risk to the market.</p> <p>The Chair noted that it was surprised of the quantum change arising from the 2009 review and that the retention of values for three years may not be efficient from a market perspective.</p> <p>Griffin Energy questioned whether the reason for such a large change during the 2009 review was due to the initial margin values being incorrect. The Chair responded, noting that the quantum shift was due to both the large movements in gas prices and increase in intermittent generation in the South West interconnected system.</p> <p>The ERA noted that whether or not a more comprehensive review of the provision of Ancillary Services is required will at least in part</p>	

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	<p>be informed by the outcomes of System Management's Load Following procurement process that is currently underway. In particular, the ERA noted that there are still questions as to whether the current procurement mechanism (facilitated in part by RC_2008_38: Least Cost Determination of Ancillary Services) is workable and whether or not participants are able, and willing, to offer Load Following services within the current framework. Alinta also agreed and noted that it considers there are some barriers to achieving a competitive Ancillary Service outcome at present.</p> <p>It was noted that the Rule Change Proposal gives Verve Energy some comfort that it is appropriately recompensed using up to date values which in turn minimises some of Verve Energy's risk.</p> <p>The Chair noted that the proposed amendments send a positive signal to those interested stakeholders considering the financial impact on the Balancing generator. Additionally, the Chair considers that the amendment is important from a market integrity perspective.</p> <p>The MAC agreed to progress this Rule Change Proposal, as such it was agreed that Verve Energy formally submit RC_2010_01.</p>	
6c.	<p><b>NET STEM SHORTFALL CALCULATIONS</b></p> <p>The IMO presented the issues identified by Griffin Energy with the formula for calculating the Net STEM Shortfall (clause 4.26.2 of the Market Rules). In particular, a Market Participant with more than one facility is currently overcharged Capacity Cost Refunds if one of its facilities experiences a Forced Outage while another has generating capacity that is not dispatched (such as Scheduled Generators, Curtailable Loads and Interruptible Loads). For the case of Griffin Energy it is having a Net STEM shortfall calculated for its portfolio purely because its Curtailable Loads has not been asked to reduce consumption.</p> <p>The IMO apologised to Griffin for not working through this issue quicker. The IMO noted that after internally reviewing the issue, it had determined that there does appear to be an error in the calculation however no fast solution to fix the issue has been identified. The IMO noted that any changes will impact on most of the market and it is for this reason that the IMO has contracted Future Effect to undertake a more detailed examination of the issues and identify and potential solutions and their likely impacts.</p> <p>Griffin noted that as a consequence of the current error in the calculation it is likely to cost it \$2.5m this year.</p> <p>Future Effect presented an overview of this examination of the issues associated with the current calculation of the net STEM shortfall. A copy of the presentation is available in Appendix 1 to these minutes.</p> <p>It was noted that there are two issues associated with the Net</p>	

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	<p>STEM Shortfall calculations:</p> <ul style="list-style-type: none"> <li>• Issue 1: Where a Market Participant has multiple generators in its portfolio and one (or more) suffers a real-time Forced Outage then the expected energy supplied in real-time from the portfolio is reduced to reflect just the Forced Outage. This adjustment however is applied relative to the portfolio's total Reserve Capacity Obligation Quantity, including Scheduled Generators, Curtailable Loads and Interruptible Loads that were not dispatched. As a result the Market Participant is exposed to a Net STEM shortfall purely because some of its facilities were not asked to supply energy or loads requested to reduce consumption; and</li> <li>• Issue 2: Portfolios which include generators with additional capacity available beyond their Reserve Capacity Obligations (such as Intermittent Generators (IG's)) can use the output of these generators to potentially offset any Net STEM shortfall caused by under supply of other facilities in the same portfolio.</li> </ul> <p>Alinta noted that it was uncertain whether the treatment of Intermittent Generators under the current calculation was necessarily unintended.</p> <p><i>Action: IMO to circulate the Net STEM Shortfall spreadsheets and presentation to MAC members for review by Friday 12 February 2010.</i></p> <p><i>Action: MAC members to review the Net STEM Shortfall spreadsheets and presentation and provide any comments to the IMO by Friday 19 February 2010.</i></p> <p>The Chair noted a preference for fixing the whole issue and not just part of the issue. The IMO noted that the removal of Curtailable Loads from the calculation was the minimum change required to rectify Griffin Energy's issue.</p> <p>All members were in agreement that the IMO prepare the Rule Change Proposal including the proposed solution before the next MAC Meeting.</p> <p><i>Action: IMO to develop the Rule Change Proposal on the Net STEM Shortfall issue before the March MAC Meeting.</i></p>	<p><b>IMO</b></p> <p><b>MAC members</b></p> <p><b>IMO</b></p>
<b>7a.</b>	<p><b>STATUS UPDATES: PROCEDURE CHANGES</b></p> <p>The MAC noted the procedure change status update.</p> <p><u>Market Procedure for Supplementary Reserve Capacity (PC 2009 09):</u> The IMO noted that the Working Group is currently reviewing this procedure and that discussions at the last meeting had stalled as members of the Working Group were raising fundamental questions about Supplementary Reserve Capacity.</p>	

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	<p>The IMO noted that the Working Group should contain its discussion on whether the Market Procedure is consistent with the Market Rules and not on the broader philosophical issues that would require rule changes to implement.</p> <p>The IMO noted the Working Group was not the appropriate place for such discussions of the broader issues of Supplementary Reserve Capacity. The MAC agreed and directed the Working Group Chair to direct the Working Group to undertake its role, as outlined in the Terms of Reference.</p> <p><i>Action: The IMO Procedure Working Group Chair to direct the Working Group to undertake its role, as outlined in the Terms of Reference.</i></p> <p>In addition, the IMO noted that it had an action point to raise the funding of supplementary reserve capacity issue at the February MAC. The MAC agreed that this issue could be put on hold for a further six months noting that in the near future there is little risk to the market, it was noted that this timing was appropriate as new demand forecasts would also be available in six months time. The MAC requested a discussion paper from the IMO outlining this issue for a decision at the March MAC meeting.</p> <p><i>Action: The IMO to prepare a short discussion paper on the SRC issue, recommending that this be put on hold for a further six months, for the March MAC meeting.</i></p>	<p><b>IMO</b></p> <p><b>IMO</b></p>
7b.	<p><b>MAXIMUM RESERVE CAPACITY PRICE MARKET PROCEDURE: 5 YEAR REVIEW PROCESS</b></p> <p>The IMO noted that it had committed to undertaking the major review of the Maximum Reserve Capacity Price (MRCP) Market Procedure during the most recent MRCP determination process. The IMO presented the process it intends to follow in undertaking this review.</p> <p>The IMO noted that it was currently reviewing all submissions it has received on MRCP in the past in order to develop an issues register. This issues register would then be refined into a list of key issues for a Working Group to consider and assess. This will allow for a targeted review process.</p> <p>The MAC noted the process/approach proposed by the IMO.</p>	
8a.	<p><b>WORKING GROUP OVERVIEW</b></p> <p>The MAC agreed with the following amendments to the Working Group's membership:</p> <p><u>System Management Procedure Change and Development Group:</u></p> <ul style="list-style-type: none"> <li>Debra Rizzi to replace Bill Truscott as Alinta's member;</li> </ul>	



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	<p>and</p> <ul style="list-style-type: none"> <li>Shane Cremin to replace Andrew Sutherland as Griffin Energy's member.</li> </ul> <p><u>IMO Procedure Change and Development Group:</u></p> <ul style="list-style-type: none"> <li>Corey Dykstra to replace Bill Truscott as Alinta's member</li> </ul> <p><i>Action: The IMO to update the Terms of Reference for the two procedures working groups.</i></p>	IMO
8b.	<p><b>RENEWABLE ENERGY GENERATION WORKING GROUP UPDATE</b></p> <p>The IMO noted that the draft report for Work Package One (Assessing the impacts of Government Policy on Intermittent Generation Penetration) has been made available and can be accessed at <a href="http://www.imowa.com.au/REGWG">http://www.imowa.com.au/REGWG</a>.</p> <p>The IMO noted it is currently reviewing the Work Package Two (Capacity Credit Allocation for Intermittent Generation) draft report completed by McLennan Magasanik Associates (MMA) as there was some unexpected results.</p> <p>The IMO noted that it wishes to understand the data, the model and the conceptual issues regarding this analysis. As a result of this the IMO is facilitating a number of meetings for MMA to present the methodology and the results directly with a number of stakeholders. This is prior to providing the draft report to the REGWG. The Chair confirmed that that the original report and a supplementary report of stakeholder comments will be provided to ensure transparency of any changes made during this process.</p> <p>The IMO noted that this process has delayed the presentation of the draft report to the REGWG by approximately 4 weeks.</p> <p>The IMO noted that Work Packages Three and Four are progressing through the process.</p> <p>The Chair requested member's views on the REGWG progress to date. LGP stated it was pleased with the progress of the Working Group and that the membership was appropriate and constructive.</p> <p>The Chair noted that he was pleased that the diverse group was working so well together.</p>	
9.	<p><b>GENERAL BUSINESS</b></p> <p><u>RC 2009 22: Tolerances for Compliance Reporting</u></p> <p>The IMO advised the following:</p> <ul style="list-style-type: none"> <li>In its Rule Change Proposal to allow for tolerances to be applied to its reporting obligations System Management</li> </ul>	

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	<p>did not clearly identify the proposed changes as applying to Forced Outages (as well as Resource Plan Deviations).</p> <ul style="list-style-type: none"> <li>• System Management considers that this is implied in the drafting of the proposal. However in discussions with submitting parties the IMO has determined that this was not clearly articulated to the market.</li> <li>• The IMO is therefore unclear if this rule change extends to allowing for a reporting tolerance for System Management around Forced Outages.</li> <li>• The IMO noted it is currently writing the Draft Rule Change Report. The Chair suggested extending the timeframes for publication and bringing the proposed drafting of the Amending Rules to MAC for further discussion.</li> </ul> <p><i>Action: The IMO to table the proposed drafting of RC_2009_22 (Tolerances for Compliance Reporting) for discussion at the March MAC meeting.</i></p> <p><i>Action: IMO to extend timeframes for publication of the Draft Rule Change Report for RC_2009_22 to allow time for discussion of the proposal at the March MAC.</i></p> <p><u>Review of the Metering Code</u></p> <p>It was noted that a review of the metering code is being conducted by the OoE, and Peter Hawken is the appropriate contact regarding this.</p> <p>The IMO requested that the OoE provides updates to the IMO and MAC as the review progresses.</p> <p><i>Action: The OoE to liaise with IMO regarding the upcoming Metering Code Review.</i></p> <p><u>Review of MAC Composition</u></p> <p>The Chair noted that following the IMO's review of the constitution and operating practices of the MAC it now has a robust process for undertaking the annual review of composition. The Chair noted the previous concerns of Compulsory Class members of providing details of their experience, however the Chair stated that this information was very important in determining the overall composition and identifying any gaps in the skills, experience and background of the MAC as a whole.</p> <p>The IMO noted that the Board will be reviewing the proposed composition of the MAC at its 18 February 2010 meeting and the IMO will update nominees following this. Once endorsed by the Board the membership will be published on the IMO's website.</p> <p>Alinta suggested that it would be appropriate to note the class of</p>	<p><b>IMO</b></p> <p><b>IMO</b></p> <p><b>OoE</b></p> <p><b>IMO</b></p>

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	each attendee in the minutes.  <i>Action: The IMO to amend future MAC minutes to include a column for the class of each member.</i>	
10.	<b>NEXT MEETING</b> The next meeting is scheduled for 2.00 pm – 4.00 pm on 10 March 2010.	
<b>CLOSED</b>  The Chair declared the meeting closed at 3.30pm.		