Independent Market Operator

Market Advisory Committee

Minutes

Meeting No.	34
Location	IMO Board Room Level 3, Governor Stirling Tower, 197 St Georges Terrace, Perth
Date	Wednesday 15 December 2010
Time	Commencing at 2.00 pm

Attendees	**Class**	**Comment**
Allan Dawson	Chair	
Troy Forward	Compulsory – IMO	
Stephen MacLean	Compulsory – Customer	
Ken Brown	Compulsory – System Management	
Andrew Everett	Compulsory – Generator	
Peter Mattner	Compulsory – Network Operator	
Steve Gould	Discretionary – Customer	
Corey Dykstra	Discretionary – Customer	
Geoff Down	Discretionary – Contestable Customer Representative	Proxy
Andrew Sutherland	Discretionary – Generator	
Shane Cremin	Discretionary – Generator	
Chris Brown	Observer – ERA	
Nerea Ugarte	Minister’s appointee	
Paul Biggs	Small Use Customer Representative	
Apologies	**Class**	**Comment**
Peter Huxtable	Discretionary – Contestable Customer Representative	
Also in attendance	**From**	**Comment**
Fiona Edmonds	IMO	Minutes
Jenny Laidlaw	IMO	Minutes
Phil Kelloway	System Management	Presenter
Jacinda Papps	IMO	Observer
Shannon Turner	IMO	Observer
Courtney Roberts	IMO	Observer
Greg Ruthven	IMO	Observer (3.45pm-4.55pm)
Pablo Campillos	DMT Energy	Observer

Item	Subject	Action
1.	**WELCOME** The Chair opened the meeting at 2.00pm and welcomed members to the 34th meeting of the Market Advisory Committee (MAC). The Chair noted that it was the last MAC meeting of the year and thanked members for their contribution over the last 12 months. Additionally, the Chair noted that the IMO was currently undertaking its annual review, with requests for nominations closing at 5pm, 22 December 2010.	
2.	**MEETING APOLOGIES / ATTENDANCE** An apology was received from Mr Peter Huxtable. The Chair noted that Mr Paul Biggs had been appointed by the Minister as the representative for Small Use Customers, replacing Mr Michael Kerr. The following other attendees were noted: • Geoff Down (proxy for Peter Huxtable) • Jacinda Papps (Observer) • Pablo Campillos (Observer) • Phil Kelloway (Presenter) • Shannon Turner (Observer) • Courtney Roberts(Observer) • Greg Ruthven (Observer)	
3.	**MINUTES OF PREVIOUS MEETING** The minutes of MAC Meeting No. 33, held on 10 November 2010, were circulated prior to the meeting. The following points were raised: ***Page 10: Section 6d: RDIWG Update*** Mr Corey Dykstra suggested the following amendment: • "~~Mr Dykstra noted that there is a lot of focus on generation and in particular encouraging greater efficiency. Mr Dykstra stated that a review of the RCM would impact directly on consumption.~~" ***Page 11: Section 7b: Partial Commissioning for Intermittent Generators [PRC_2010_22]*** Mr Dykstra noted that it was unclear that the proposed changes would improve consistency in treatment between Scheduled Generators and Intermittent Generators. Mr Dykstra requested clarification of how Scheduled Generators can take a commercial position when they enter the market. Mr Dykstra also questioned whether an Intermittent Facility that has partially built its wind farm and is subsequently required to make capacity refunds, should be required to make the refunds on the amount of the capacity that has been built rather than the total amount of capacity that is required to be provided for the year. Mr Troy Forward agreed to discuss this further with Mr Dykstra and that the IMO would provide clarification of the process out of session. *Action Point: The IMO to provide clarification of the proposed*	**IMO**

	requirements for partial commissioned Intermittent Generators to MAC members out of session. ***Page 13: Section 7c: Calculation of the Capacity Value of Intermittent Generation (Work Package 2) [PRC_2010_25]*** Mr Dykstra suggested the following amendment: • "Mr Forward clarified that the minutes for the ~~RDIWG~~ REGWG reflected the agreement that…" ***Page 14: Section 7c: Calculation of the Capacity Value of Intermittent Generation (Work Package 2) [PRC_2010_25]*** Mr Shane Cremin suggested the following amendment: • "Mr Cremin considered that end users should bear the costs ~~of using an ineffective generation source~~ of generation where inefficient generation is incentivised by Federal Law" ***Page 20: Section 7d: Ancillary Services Payment Equations (Work Package 3) [PRC_2010_27]*** Mr Dykstra suggested the following amendment: • "Of the two methodologies, Mr Dykstra expressed a preference for the Full Load, Marginal Generation methodology, considering that it was not…" ***Page 24 Section 7g: Acceptable Credit Criteria [RC_2010_36]*** The Chair noted that the IMO had received the following suggestion from Mr Peter Huxtable out of session: • "Mr Huxtable responded that he understood that the Western Australian Treasury Corporation was not permitted to provide this type of support and..." Subject to the agreed amendments, the MAC endorsed the minutes as a true and accurate record of the meeting. *Action Point: The IMO to amend the minutes of Meeting No. 33 to reflect the points raised by the MAC and publish on the website as final.*	**IMO**
4.	**ACTIONS ARISING** The actions arising were either complete or on the meeting agenda. The following exceptions were noted: • **Item 88/89:** Mr Forward noted that the IMO had requested a copy of the gas contingency service options report. The Chair noted that he had been provided with a copy of this for review. A copy of the report would be distributed to MAC members by the OoE in due course.	

	• **Item 126:** Mr Peter Mattner noted that the Office of Energy (OoE) and Western Power had agreed that there are no regulatory/statutory obstacles to Western Power contracting for Network Control Services (NCS). This is supported by the legal views (both OoE's and Western Power's) that this does not constitute a purchase of electricity and therefore is not a potential barrier. Notwithstanding, the OoE may consider clarifying the parts of the Access Code relating to NCS at a later date, as part of the formal Access Code review process to begin next year. Mr Mattner noted that Western Power had produced a first draft of an NCS technical specification which was currently being reviewed internally. Western Power would be engaging a Consultant to develop a standard form contract. Mr Mattner stated that Albany is expected to be the initial location for deployment of services. • **Item 128:** Mr Forward noted that System Management and the IMO had met and agreed that the Market Rules are currently silent in relation to the priority of NCS dispatch over other dispatch and so it is currently at the discretion of System Management. For the purpose of transparency further amendments are required to the Market Rules. These amendments would give priority to the dispatch of the NCS. The IMO noted that it will update the proposed Amending Rules in the Draft Rule Change Report for RC_2010_11 accordingly. • **Item 130:** Mr Forward noted that the IMO would consider whether information on new large loads should be included in the Statement of Opportunities (SOO) closer to the time when the SOO is prepared. • **Item 136/137:** Mr Forward noted that the IMO has sought legal advice on use of drawn down security to fund Supplementary Reserve Capacity (SRC) and will be considering the issues further based on the outcome of that advice. Mr Forward noted that the IMO would consider a consolidated SRC fund separately to RC_2010_28. • **Item 145/146:** Mr Forward noted that the further work on updating the Confidentiality Status Classes was planned for early in the New Year. • **Item 149:** Mr Forward noted that the IMO was currently updating the REGWG Final Report to reflect the comments received from MAC members, where appropriate. • **Item 154:** Ms Jenny Laidlaw noted that ROAM had estimated the financial impacts of re-allocating capacity costs for Spinning Reserve from Market Customers to Scheduled Generators. A copy of the estimate was distributed to MAC members and is provided as Appendix 1. Ms Laidlaw noted that re-allocation of Spinning Reserve capacity costs to Scheduled Generators would reduce the capacity costs for Load Following assigned to Loads and Intermittent Generators. This was because the capacity used for Load Following was also used for Spinning Reserve, resulting in a capacity cost saving that would be shared between the two user groups. For example, under the existing Market Rules the Load Following capacity payment for 2009/10 is approximately $6.5 million, but under ROAM's	

proposal this would decrease to $5.2 million as a result of these shared cost savings.

In response to questions from both Mr Andrew Sutherland and Mr Dykstra Ms Laidlaw confirmed that these are not new costs but rather a re-allocation of existing capacity costs from Loads to Scheduled Generators. Mr Sutherland considered that the end user should pay for the service, rather than the generator. Mr MacLean noted that changes to the cost allocation methodology introduce regulatory risk.

Mr Cremin noted that this would provide a further incentive for Scheduled Generator Facilities not to exceed 200 MW. Mr Ken Brown noted that it had always been the case that smaller sized plants have been incentivised to enter the market. Mr Cremin replied that larger units may result in lower cost energy. The Chair noted the importance of the market sending the right signals for investment in the right sized plant. Mr Cremin noted that issues such as the majority of electricity being supplied by a particular type of fuel should be considered. Mr MacLean suggested that increasing the largest size unit in the cost allocation mechanism from 200 MW to a higher value could be further considered.

The Chair noted that the changes being discussed do not currently constitute part of the Rule Change Proposal. The Chair noted that the MAC appeared to have polarised views on whether this inclusion should be made. The Chair questioned whether the re-allocation of Spinning Reserve capacity costs to Scheduled Generators should be included in the Rule Change Proposal. Specifically:

- Mr Cremin considered that this would incentivise smaller units entering the market.
- Mr Dykstra considered that the focus should be on the outcomes of the change, which in the short term would increase regulatory risk but have little impact on the reliability of services. Mr Dykstra suggested that capacity payments are the insurance that a Load pays for reliability. Ms Laidlaw noted that the Market Rules have adopted a “causer pays” approach for Load Following capacity costs.

The Chair questioned whether Verve Energy was the only supplier of Spinning Reserve Services to the market. In response, Mr Brown noted that there are currently other suppliers, but that as the Load Following requirement increases over time, the requirement for separate Spinning Reserve is expected to decrease. Mr Brown also noted the importance of not encouraging the entry of a very large unit into the market, as this would increase the Spinning Reserve requirement, particularly if the current standard (70 percent of the largest unit) needed to be reconsidered. Mr Brown noted that the reserve requirement in the National Electricity Market is 100 percent of the largest unit on the system.

The Chair questioned whether the MAC had been presented with enough information to make a decision around whether re-allocation of Spinning Reserve capacity costs should be incorporated into RC_2010_27. Mr Dykstra questioned the wider driver for a change

	(with respect to the Market Objectives), beyond simply ensuring consistency with the treatment of Load Following. The Chair suggested that the MAC reconsider this issue at a later time. Mr Cremin questioned whether the IMO will be reconsidering the cost allocation of Spinning Reserve at any time. The Chair agreed for the IMO to consider this issue along with any wider review of Spinning Reserve cost allocation. Mr Brown noted that previous experience in the WEM had lead to the decision to set a standard for Spinning Reserve of 70 percent of the largest unit on the system. Mr Brown noted that other markets hold around 100 percent of the largest unit back as reserve. Mrs Jacinda Papps noted that the last 5 year review of the Ancillary Services Requirements, which recommended maintaining the 70 percent requirement, was completed in 2008. Mrs Papps noted that a further review would be undertaken in 2013. Mr Kelloway noted that some work had been undertaken by Mr David Newton a few years ago, which suggested that the Spinning Reserve requirement would increase to 100 percent if the size of the largest unit approached around 400 MW. Mr Kelloway offered to make the results of this work available to MAC members. Several MAC members expressed an interest in seeing these results. Mr Forward suggested including further consideration of the potential re-allocation of capacity costs for Spinning Reserve to Scheduled Generators in the 2013 Review of Ancillary Services requirements. The MAC agreed with this suggestion. *Action Point: System Management to distribute the results of Mr David Newton's work on Spinning Reserve requirements to MAC members.* *Action Point: The IMO to include further consideration of the potential re-allocation of capacity costs for Spinning Reserve in the 2013 Review of Ancillary Services requirements.*	 **SM** **IMO**
5a	**MARKET RULE CHANGE OVERVIEW** The MAC noted the Market Rule Change Overview. Mr Forward noted that the IMO had recently undertaken an internal review of the Rule Change Issues Log which has resulted in the rationalisation of a number of issues. Mr Forward notified the MAC that they would see a decrease in the number of recorded issues in February 2011. Mr Forward also noted that the IMO had also commenced a series of discussions with individual Market Participants around their operational issues which would be incorporated into the Rule Change Issues Log for prioritisation.	
5b	**LIMITS TO EARLY ENTRY CAPACITY PAYMENTS [PRC_2010_30]** The Chair noted that at the November 2010 MAC meeting, the IMO had agreed to provide its external advice from Marchment Hill Consulting (MHC) on the consistency of PRC_2010_30 with the Market Objectives to the MAC for discussion. The Chair noted that when Alinta had first tabled the proposal he had personally expressed concern as to whether the proposal would meet the test against the Market Objectives and so had	

	recommended that external advice be sought on the change to inform Alinta prior to formal submission. Mr Dykstra noted that this had been a novel approach and questioned whether this approach would continue to be adopted in the future. The Chair confirmed that this would be the case if there was again an obvious risk of a draft rule change not meeting the test against the Market Objectives. Mr Cremin noted that the original Rule Change Proposal: Changing the Window of Entry into the Reserve Capacity Mechanism (RC_2009_11) had had a number of competing impacts associated with it. The MAC had agreed that the benefits to reliability outweighed the costs associated with additional capacity payments. Mr Cremin noted the importance of quantifying costs and benefits when making a decision like this. Mr Dykstra noted that the costs of capacity credits to DSM programmes would be approximately $2.5 million and $8.5 million for the 2011/12 and 2012/13 Capacity Years respectively. Mr Sutherland noted that during the last MAC meeting there was a discussion about the proposal being a regulatory risk to DSM providers, as they had already contracted their capacity from 1 August. Mr Sutherland noted that a Scheduled Generator would not contract for a 1 August start date as it would not be that certain that it would be able to supply the capacity at that time. Mr Sutherland noted that while he sympathised with the position of DSM providers he considered that the current allowance for early entry of DSM Programmes was an unintended outcome from RC_2009_11. Mr Pablo Campillos noted that the business models for DSM Programmes and Scheduled Generators differ, stating that Alinta's proposal would change the operating rules after DSM Programmes had already made their investments for the 2012/13 Capacity Year. As such, Mr Campillos considered that any potential change should apply from the next capacity cycle. Mr MacLean noted that the IMO did not support grandfathering arrangements. Mr Campillos replied that he was not advocating grandfathering but rather delayed implementation, similar to that adopted for the Rule Change Proposal: Demand Side Management – Operational Issues (RC_2008_20). The Chair noted that in the case of RC_2008_20 the preference expressed by the MAC had been for a delayed implementation because there were retail supply contracts already in place, and so it would have been inequitable to implement the amendments prior to the end of the current capacity cycle. Members agreed that this had been the rationale for the delayed implementation, although Mr MacLean noted that as there are costs associated with RC_2010_30 the impacts on the market are inherently different. Mr Cremin questioned whether a facility that has been registered to commence operation in the 2012/13 Capacity Year and which has not yet commenced in the market could tender for Supplementary Reserve Capacity (SRC). Mr Forward considered that this was the case, noting that the only exclusion is that a DSM provider that has not filled its programme cannot tender for SRC. The Chair noted that previously an upgraded	

	Facility that had not been allocated Capacity Credits for the current Capacity Year but which had received Capacity Credits for a future Capacity Year had participated in the last SRC tender process. Mr Dykstra stated that Alinta had not originally supported RC_2009_11, noting that the market currently recognises that a commissioning generator is unreliable for the first few months of commissioning, and so to try to improve the reliability of this product the proposal had created an incentive for earlier entry into the market. Mr Dykstra however noted that there were additional costs associated with encouraging a more reliable product to be available for the Hot Season. Mr Dykstra added that the analysis undertaken for RC_2009_11 had not quantified this. Mr Dykstra however noted that new generators enter the market relatively infrequently and so it is inherently difficult to quantify the impacts. Mr Dykstra noted the issues associated with treating capacity from all types of sources equally, despite DSM being clearly not available as frequently as Scheduled Generation. Mr Dykstra considered that this needs to be considered as part of the wider review of the RCM. Mr Dykstra stated that RC_2009_11 was specifically related to the commissioning activities of traditional Scheduled Generators and was never intended to cover DSM. The Chair agreed that there had been no discussion of DSM with regard to RC_2009_11. Mr Dykstra noted that earlier entry of a Scheduled Generator makes it available for dispatch by System Management, however the clause 7.7.4(c) of the Market Rules currently prescribes that DSM would be dispatched last. Mr Forward queried whether further consideration of this issue should be incorporated into the wider review of the Reserve Capacity Mechanism. Mr MacLean noted that this is a stand alone issue with a significant cost to the market. Mr MacLean considered that it is not discrimination if there is physical or practical reason to treat a technology type differently. Mr MacLean noted that operationally a Scheduled Generator is unique in this regard due to the quality of its product when first commissioned, and therefore should be treated differently to DSM. Dr Steve Gould noted that MHC's report suggested that the proposed change is contrary to Market Objective (c) because it provides for different treatment of different classes of early-commissioned capacity based only on asserted cost differences between those classes. Dr Gould noted that RC_2010_30 related to technical differences and not cost differences. Mr Campillos noted that RC_2009_11 originally referenced the improvements to reliability from earlier market entry, to which DSM clearly contributes. Mr MacLean noted that MHC's report states that socialising the cost of capacity is not a good idea. Mr Maclean questioned whether the MAC was reactive in this regard when considering RC_2009_11. Mr Forward noted that the basic engineering principles still hold when commissioning new plant, noting that Mr Dykstra's argument is that DSM is not exposed to this operational risk. Mr Forward agreed that in some instances DSM Programmes may need to install equipment but personally considered that this requirement is much lower than for Scheduled Generators.	

	The Chair noted that the MAC appeared to be in agreement that DSM should not be provided with access to the earlier window of entry. The Chair noted that the amendments need to be drafted in a manner which would clearly display the benefit to the Market Objectives. Mr Dykstra noted that in his view MHC's report misunderstands the proposal. Mr Dykstra questioned whether the basis for MHC's conclusions are accurate and reflect an understanding of the intent of the proposal. The Chair suggested that Mr Dykstra reflect the opinions of the MAC and the advice received from MHC's in Alinta's proposal, as this would take into account a number of the identified issues and suggestions. *Action Point – Alinta to progress RC_2010_30 through the Rule Change Process, subject to further clarification of the proposal based on the MAC's discussion.*	**Alinta**
5c	**SYSTEM RESTART COSTS [PRC_2010_33]** Mr Andrew Everett noted that the Pre Rule Change Discussion Paper from Verve Energy proposes to remove a current anomaly in the Market Rules which would require Verve Energy to pay to provide System Restart services if the current Cost_LR value is zero and services are contracted to another party. Any costs for System Restart services provided by third party suppliers would be allocated to Market Customers through the Reconciliation Statement. Mr Dykstra questioned how a Cost_LR value of zero could result in Verve Energy paying for the services. Mr Everett confirmed that this would be the case and noted that this had been confirmed by both Verve Energy and the IMO. Mr MacLean questioned whether the ASP_Payment variable needs to be retained in the calculation contained in clause 9.9.1 given the new ASP_ Balance_Payment variable that has been proposed. Mr Everett agreed to review the drafting further to ensure that the calculation correctly reflects the required amendments. *Action Point: Verve Energy to review the drafting proposed by RC_2010_33 to determine whether any further adjustments to the calculation specified in clause 9.9.1 are required.* Discussion ensued around the chain of events which lead to the situation where Cost_LR had been set equal to zero. Mr Chris Brown noted that the ERA will be soon releasing an issues paper and consulting on the revised Cost_LR value with industry. Mr Ken Brown noted that the process for Cost_LR approval is time consuming. Mr Phil Kelloway noted that System Management is currently preparing an issues paper for the MAC regarding this. *Action Point: Verve Energy to progress RC_2010_33 through the Rule Change Process, subject to the incorporation of any further necessary amendments.*	**Verve Energy** **Verve Energy**

5d	**CALCULATION OF CAPACITY VALUE FOR INTERMITTENT GENERATORS [RC_2010_25 & RC_2010_37]** The Chair noted that the IMO had received a Rule Change Proposal from Griffin Energy (RC_2010_37) proposing an alternative approach to calculating the capacity value for Intermittent Generators to that proposed by the IMO in RC_2010_25. The Chair noted that the IMO had sought external advice on how to proceed with the two proposals with the prospect of joining the two rule changes. This was not possible under the Market Rules and the IMO had subsequently aligned the two consultation timelines to allow participants to have an opportunity consider both proposals. Mr Cremin noted that the process undertaken by the IMO in progressing the two Rule Change Proposals at the same time appears reasonable and well constructed. Mr Cremin noted that progressing the proposals together will allow interested parties to compare the proposals. Mr Cremin noted that the Griffin Energy Rule Change Proposal had the support of a number of members of the REGWG. Mr Forward noted that System Management had provided some further analysis of the impacts of Intermittent Generation on the WEM and the associated capacity valuation methodology. A copy of the additional analysis is provided as Appendix 2. The Chair welcomed a discussion from the MAC on both proposals. The following points were raised: • Mr Andrew Sutherland expressed concern around having two rule changes in the formal process which would have significant impacts on new and existing projects. Mr Sutherland stated that the IMO needs to be conscious of the regulatory risks being created and the signals that are being provided to the market. Mr Sutherland also noted a higher level concern that existing assets will be devalued. Mr Sutherland was uncertain which of the proposed methodologies was the right one to implement. • Mr Paul Biggs considered that any delay in addressing this issue would lock in the current arrangements as more wind farms continue to enter the market and that this would be an investment concern. • Mr Sutherland suggested that the IMO consider grandfathering of these Market Rules. Mr MacLean noted that although the IMO was not in favour of grandfathering, the current proposal sends a signal that any investment could be subject to changed market conditions in the future. The Chair noted that the construct of the WEM is currently based around the possibility that the Market Rules would change, noting the IMO signals this in advance where possible. Specifically, this change had been signalled in the past three Statement of Opportunities. • Mr Dykstra questioned the driver of the change and the solution being proposed. Mr Dykstra reiterated his concerns around the IMO's independent expert's proposed solution being rejected in favour of another methodology. In response, the Chair noted that the IMO had proposed a methodology on the basis that that the independent expert's solution was based on modelling using a limited data set	

	which did not reflect a one in ten year event. The Chair also noted that System Management had raised concerns around the security associated with allocations of Capacity Credits to Intermittent Generators at the current levels. Mr Ken Brown noted that system security is paramount, stating that comparatively other electricity markets (with and without capacity markets) make much lower capacity allowances to wind farms. • Mr Cremin noted that the REGWG process had continued to look at the outcome from a reliability perspective. Mr Cremin noted that the fundamentals are that federal legislation is driving investments in renewables and that these will be built in Western Australia. Mr Cremin considered that a lower capacity valuation for this would mean that additional gas turbines would need to be built to cover existing wind farms. Mr Cremin noted that this would result in the same outcome as changing the reliability criteria - that is a bigger capital base would be required to meet the IMO's forecast capacity requirements. Mr Cremin questioned why the path of changing the capacity valuation for Intermittent Generators was being pursued when the same outcome could be achieved using a different process. Mr Cremin stated that the current path would result in disincentives for wind farms. • Mr Brown noted that even if the reliability criteria were changed there would still be a number of wind farms who would claim to be able provide a large amount of the required capacity. Mr Brown stated that it was perverse that Western Australia wanted to make capacity payment of 40 percent to Intermittent Generators when other markets recognise that they are less reliable and so make reduced payments. Mr Cremin noted that he was suggesting that Intermittent Generators should be certified at 40 percent and that additional generation should then be procured to meet the reliability criteria. Mr Cremin suggested that the additional capacity would be naturally restricted to not coming from other Intermittent Generators. Mr Cremin suggested that this would result in the same outcome without distorting the investment signals to Intermittent Generators. • Mr Kelloway noted that Mr Cremin's suggestion would result in the market paying a larger amount to a wind farm than the true value of its capacity. Mr Cremin responded that he was unsure whether the macro implications of what was being done were considered. Mr Kelloway noted that the data available now shows some trends that the capacity contribution of wind farms during peak periods is quite variable. Mr Kelloway noted that taking an averaging approach when determining their contribution hides these peak periods. • Mr Brown agreed with Mr Cremin that there should be separate security and capacity payments but noted that this is inconsistent with the current market design. Mr Brown noted that he is not aware of any other power system that uses averages to value the capacity of Intermittent Generators. Mr Kelloway reiterated that there is a lot of variance in the output of wind farms that even on a given day can range between 5 and 45 percent. Furthermore, the average from one year to the next can vary significantly. • Mr Cremin considered that the decision being made around the valuation of capacity from Intermittent Generation will have significant impacts at a policy level and that this should have been more	

	consciously considered through the REGWG deliberations. • Mr Everett noted that it is not the MAC's role to decide what types of technology should be installed but rather the job of policy makers. The Chair noted that the requirement is for 20 percent of capacity to be from renewable sources by 2020 and noted the previous advice the MAC had received from the Minister on this. Mr Biggs noted that other mechanisms existed to incentivise the development of renewable technologies and stressed the importance of providing transparency on costs. Mr Biggs noted that if the Market Rules provide this transparency then it is a policy decision as to what incentives are required to achieve the targets for renewables. • Mr Pablo Campillos noted that if the policy setting is fundamentally changed then a transition process should be considered. The Chair noted that he would support a transition process. • The Chair noted that grandfathering a range of provisions could result in a different set of Market Rules applying to each Market Participant. This creates distortions in the market and results in Market Participants finding it difficult to determine what their risks are as any costs are allocated differently to each Market Participant. Mr Cremin noted that there may however be cases where grandfathering of clauses is warranted. The Chair suggested that the MAC consider the timing of implementation of any Amending Rules rather than the introduction of grandfathering provisions. The Chair noted that the Reserve Capacity Cycle creates a natural timeframe for the implementation of any Amending Rules. • Mr Brown expressed his surprise with the large allocations of Capacity Credits to be made to Photovoltaic (PV) technologies under both of the proposed methodologies. Mr Brown noted that modelling of the impacts of PV are starting to indicate that if the proposed incentives were put in place, then the system peak would be likely to no longer occur in summer. Mr MacLean noted that neither of the proposed methodologies would impact on household investment in PV. The Chair noted that the 12 peak periods may have a significant impact on this clarifying that if the peak periods move away from the periods when solar is experiencing its peak output then this would be accounted for in the Load for Scheduled Generation calculation. • Mr Dykstra questioned whether it would make sense to defer a decision around the capacity valuation methodology to the broader review of the RCM process. Mr Dykstra noted that the level of capacity from Intermittent Generators currently in the market is much lower than for DSM which also has restricted availability. The Chair noted that it is important to resolve the current issues around the capacity valuation methodology from an investment perspective. Mr Forward noted that there was benefit in pursing an amended capacity valuation methodology as it is arguable that the current mechanism was a manifest error at market start. • Mr Dykstra questioned how the IMO would consider two competing proposals designed to achieve the same outcome as both may be considered consistent with the Market Objectives. The Chair responded that the IMO was likely to compare how well the two proposals served the Market Objectives.	

6a	**MARKET PROCEDURE CHANGE OVERVIEW** The MAC noted the overview of recent and upcoming procedure changes.	
6b	**SRC MARKET PROCEDURE** The Chair noted the new Market Procedure for Supplementary Reserve Capacity (SRC) had been recently developed by the IMO in conjunction with the IMO Procedure Change and Development Working Group (Working Group). The Chair noted that as it is a proposed new Market Procedure it had been included on the agenda for discussion by the MAC. Mrs Papps noted that the Working Group had reviewed the proposal three times. Mr MacLean questioned whether the proposed Market Procedure reflected the Working Group's comments. It was noted that the version reflecting the Working Group's comments was available on the public webpage. Mrs Papps noted that submissions on the proposed new Market Procedure are due on 20 December 2010.	
7a	**WORKING GROUP OVERVIEW** The MAC noted the Working Group overview.	
7b	**MRCPWG UPDATE** Mr Mattner noted that Western Power would like to review the report being prepared by Sinclair Knight Merz on an appropriate calculation methodology for Western Power to follow when estimating deep connection costs. Mr Ruthven noted that the report would be provided to all MRCPWG members prior to the next Working Group meeting. The MAC noted the overview of the MRCPWG.	
7c	**RDIWG UPDATE** Mr Forward thanked MAC members for their participation in the operational workshop held on 14 December 2010.	
8	**LOAD FOLLOWING ANCILLARY SERVICES** The Chair asked MAC members if they required a formal presentation on System Management's proposal for the partial competitive procurement of Load Following Ancillary Services (LFAS), as the proposal had been presented at the 23 November 2010 RDIWG meeting. Mr Kelloway noted that the concept paper circulated with the papers for today's meeting provided an overview of how the component processes for prequalification, Scheduling Day, Trading Day and settlement would operate. There was general agreement that a formal presentation was not necessary. The Chair noted that in the previous day's RDIWG meeting it was agreed that the proposals for competitive Balancing and Ancillary Services should not be developed in isolation. The Chair expressed an interest in understanding how the two proposals could work together. Mr Kelloway advised that System Management was still considering some of the details of the proposal, such as the minimum block length requirement. Minimum block length, the requirement for symmetric bids and the restriction of the contestable LFAS quantity to 20 MW appeared to be the main issues of concern to participants. Mr MacLean suggested that	

	the proposal could be seen as a trial, which could be extended if successful. Mr Kelloway, while considering that the proposal represented more than a trial, suggested that some form of desktop testing may be appropriate before a full implementation. Mr Sutherland considered that further work on the LFAS proposal should be undertaken as part of the Market Evolution Program (MEP), with Mr Douglas Birnie responsible for project management. This would help to ensure that the LFAS and Balancing proposals were compatible. Mr Kelloway noted that the Economic Regulation Authority (ERA) and Market Participants have in the past expressed a strong interest in the implementation of contestable LFAS, which has acted as a strong incentive for System Management to take action. Mr Kelloway considered that this work could continue as either part of the MEP or as a separate work stream, stating that his only concern with the former path was with the potential for delays. Mr Dykstra considered that the proposal failed to address any of the issues raised by participants in their responses to System Management's tender for LFAS last year. Mr Kelloway disagreed, considering that the MCAP issue had been addressed by the proposal. Mr Dykstra did not believe that the proposal in its current form would achieve its objectives, stating that Alinta would definitely not be able to participate in the provision of LFAS under the specified conditions. Mr Dykstra considered that there little point in pursuing the current proposal unless other generators had a significantly different position. The Chair considered it would be difficult to justify the effort and cost involved in implementing the LFAS proposal in isolation. Mr Kelloway replied that he was not suggesting this approach. The Chair suggested that Mr Jim Truesdale and System Management collaborate to determine the mechanics of how competitive Balancing and LFAS could work together and report back to the RDIWG with their findings. Mr Cremin supported the Chair's suggestion, stating that he would prefer to push forward with the LFAS work given the impact on generators of the currently proposed changes to the cost allocation mechanisms for LFAS. Mr Sutherland noted that he agreed with Mr Dykstra's comments and wanted to see a proposal that addressed the issues that had been raised by participants. Mr Kelloway noted that System Management was happy to work with Mr Truesdale but would like to make sure that the ERA supported this approach. Mr Chris Brown noted that the ERA's previous comments on competitive LFAS pre-dated the work of the MEP. The ERA Secretariat was still keen to see work on competitive procurement of LFAS proceeding, but supported the approach suggested by the Chair. MAC members agreed that the proposals for competitive Balancing and LFAS provision should be developed together as a package. *Action Point: Mr Jim Truesdale and System Management to work together to develop a combined proposal for competitive Balancing and Load Following Ancillary Services provision, and report back to the February*	**IMO /SM**

	2011 meeting of the RDIWG. The Chair advised the RDIWG that the Minister for Energy had approved the budget for the MEP the previous day.	
9	**RESERVE CAPACITY MECHANISM** The Chair noted that the IMO had prepared a presentation outlining the details of its recent report to the IMO Board on the Reserve Capacity Mechanism (RCM). The presentation slides are included in the papers for this meeting. The Chair advised that as a result of the presentation the IMO Board has commissioned a review of the RCM, to identify potential changes to reduce the oversupply of capacity and the cost to the market of this oversupply. A draft scope of works was presented to the IMO Board at its 16 December 2010 meeting. The IMO expects the appointment of a consultant in the first half of 2011. The Chair offered to provide MAC members with a copy of the scope of works for information. Mr Dykstra questioned the suggestion in the presentation that the oversupply of capacity resulted in increased market costs. There was some discussion about the extent to which the adjustment for excess capacity in the calculation of the Reserve Capacity Price prevented any cost increase. Mr MacLean suggested that the continuing excess of new capacity despite the reduced price indicated that the price was still inefficient. Mr Forward considered that regardless of the Reserve Capacity Price the market would still eventually have to pay for any excess capacity built in the SWIS. In response to a request from Mr Campillos the Chair agreed to circulate the scope of works for its review of the Reserve Capacity Mechanism to interested stakeholders. *Action Point: The IMO to circulate the scope of works for its review of the Reserve Capacity Mechanism to interested stakeholders.*	**IMO**
10	**2010 YEAR IN REVIEW** The MAC noted the IMO's 2010 Year in Review overview.	
11	**GENERAL BUSINESS** There was no general business. Mr Forward wished MAC members a Merry Christmas on behalf of the IMO.	
12	**NEXT MEETING** Meeting No. 35 will be held on Wednesday 9 February 2011.	
CLOSED: The Chair declared the meeting closed at 4.55pm.		