

**Independent Market Operator
Market Advisory Committee**

Minutes

Meeting No.	SPECIAL MEETING
Location:	IMO Board room Level 3, Governor Stirling Tower, 197 St Georges Terrace, Perth
Date:	Wednesday 20 January 2010
Time:	Commencing at 2:00 – 4:00pm

Attendees		
Allan Dawson	Independent Market Operator (IMO)	Chair
Troy Forward	IMO	Member
Ky Cao	Perth Energy	Member
Steve Gould	Landfill Gas & Power (LGP)	Member
Ken Brown	System Management	Member
Stephen MacLean	Synergy	Member
Brad Huppatz	Verve Energy	Proxy for Wendy Ng
Shane Cremin	Griffin Power	Member
Anne Hill	Office Of Energy (OoE)	Member
Peter Huxtable	Water Corporation	Member
Peter Mattner	Western Power	Member
Also in attendance		
Peter Oates	Oates Implementation Review Team	Presenter
Greg Thorpe	Oates Implementation Review Team	Presenter
Fiona Edmonds	IMO	Minutes
Jacinda Papps	IMO	Observer
Phil Kelloway	System Management	Observer
Nerea Ugarte	OoE	Observer
Tony Perrin	OoE	Observer
Robert Pullella	Economic Regulation Authority (ERA)	Observer
Jim Truesdale	Concept Consulting	Observer
Apologies		
Wendy Ng	Verve Energy	Member
Corey Dykstra	Alinta	Member
Chris Brown	ERA	Member

Item	Subject	Action
1.	WELCOME and INTRODUCTIONS The Chair opened the meeting at 2:00pm and welcomed members to the Market Advisory Committee (MAC) Special Meeting.	

	<p>The Chair thanked all members and additional attendees, including Peter Oates and Greg Thorpe from the Oates Implementation Review Team (Review Team) and Jim Truesdale from Concept Consulting, for making themselves available for the Special Meeting.</p> <p>The Chair thanked Mr Oates and Mr Thorpe from the Review Team, on behalf of the MAC, for the opportunity to be a part of the Oates Review (Review) Implementation process.</p> <p>The Chair noted that the IMO Board and the Review Team met in November 2009 to discuss how the Review would interact with the current electricity market governance structures. Additionally, the Chair noted that many of the issues identified by the Review had previously also been identified in the Market Rules Evolution Plan and as part of the Renewable Energy Generation Working Group (REGWG) process. It was noted that, subject to a minor amendment to work package 3 (previously minuted in the MAC Meeting 24 minutes), the review team was comfortable with the work of the REGWG.</p> <p>The Chair provided a brief overview of the anticipated process going forward:</p> <ul style="list-style-type: none">• Concept Papers prepared by the IMO and the Review Team, noting that these may cover more than one of the issues identified by the Review;• Presentation of Concept Papers to the MAC;• Consultation process with the MAC;• Market Rule changes jointly developed by the IMO and the Review Team; and• Market Rule change process and implementation. <p>Further details of the process are presented in a flow chart attached as Appendix 1 to these minutes.</p> <p>The Chair noted that the Review and implementation project has provided interested stakeholders with an opportunity to make the Wholesale Electricity Market (WEM) more efficient. The Chair also noted that Ministerial support for the proposed implementation solutions will allow the market to development further and represent a mini revolution.</p> <p>Mr Oates noted that the Review Team has had the opportunity to discuss the process for conducting the implementation projects with most stakeholder groups. Mr Oates noted that the Review Team will work closely with both the wider industry and the MAC over the next 15-18 months during implementation.</p>	
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<p>2.</p>	<p>MEETING APOLOGIES / ATTENDANCE</p> <p>Apologies were received from:</p> <ul style="list-style-type: none"> • Wendy Ng (Verve Energy); • Chris Brown (ERA); and • Corey Dykstra (Alinta). <p>The following other attendees were noted:</p> <ul style="list-style-type: none"> • Greg Thorpe - Oates Review Implementation Team; • Peter Oates – Oates Review Implementation Team; • Jim Truesdale – Concept Consulting. • Brad Huppatz (as a proxy for Wendy Ng); • Jacinda Papps – IMO; • Phil Kelloway – System Management; • Nerea Ugarte – OoE; • Tony Perrin – OoE; and • Robert Pullella – ERA. 	
<p>3.</p>	<p>REVIEW ENERGY REVIEW: MARKET RULES IMPLEMENTATION DISCUSSION AND INFORMATION PAPER</p> <p>Mr Thorpe from the Review Team presented an overview of the Market Rules Implementation discussion and information paper which has been prepared as an outcome of the Review. A copy of the presentation has been provided as Appendix 2 to these minutes.</p> <p>Mr Thorpe emphasised that the paper was intended to be a “think piece” and is not intended to provide solutions but rather highlight some preliminary views on the pinch points of the current WEM design and the characteristics of some likely solutions.</p> <p>Additionally it was noted that the Market Rules do not stand alone. They fit together to form the overall market design framework and therefore can not be viewed in isolation. It is for this reason that all markets end up with their own unique solution. It was noted that a holistic approach to design is essential.</p> <p>It was noted that the framework of the implementation project is based on the fundamentals of the industry and the impact on reliability and efficiency. Aspects of the market design, such as the capacity market in the WEM, are tools to deliver the common objectives of market efficiency and security.</p>	

	<p>It was noted that the fundamentals of the core market design (i.e. the capacity market) are not being addressed by the Review and existing governance arrangements will be maintained. In particular, any amendment to the Market Rules must be consistent with the Wholesale Market Objectives.</p> <p>All electricity industries have common aspects regarding investment, operational planning and operations. The WEM (Reserve Capacity Mechanism, Bilaterals, STEM and Dispatch/Balancing) is used to deliver these industry steps efficiently and reliably. The difficult balance between reliability, security and economic efficiency was noted.</p> <p>The issues identified in the discussion and information paper were presented with particular reference to the short term operation of the WEM i.e. STEM, Dispatch/Balancing and related settlement issues.</p> <p>The Chair opened the floor for comments on the discussion and information paper and presentation. The IMO noted that it will consolidate any written feedback to Mr Thorpe that members may have.</p> <p><i>Action Point: IMO to circulate the presentation to MAC members.</i></p> <p><i>Action Point: MAC members and invited attendees to provide any additional comments on the discussion and information paper or presentation to the IMO by 4 February 2010.</i></p> <p><i>Action Point: The IMO to consolidate any written feedback and provide to Mr Thorpe.</i></p> <p>System Management agreed that it is difficult to make efficient unit commitment decisions in the current WEM design and noted that these decisions are more difficult with coal plant than with gas plant, and that decisions are sometimes last minute. System Management noted that it was intrigued by the suggestion that because unit commitment decisions for Verve plant are made after STEM is run have an implied advantage and queried whether Verve agreed with this. Verve noted that there are challenges with unit commitment currently.</p> <p>System Management stated that the day ahead nature of STEM makes the optimisation of the system difficult and that greater penetration by wind in the future may create further complications.</p> <p>The OoE noted that it is important that System Management be involved in the process to ensure any decisions made will be plausible from a system operation perspective.</p> <p>The IMO noted that currently there is a missed opportunity for non-Verve parties to make a decision of whether it is cheaper to make or buy electricity. The current WEM structure means that</p>	<p>IMO</p> <p>MAC</p> <p>IMO</p>
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	<p>participants operate within bilateral contracts when there may be opportunities to buy cheaper electricity or turn down. There is a large opportunity for industry around non-balancing parties being able to make commercial delivery on contracts more cost effective through the ability to determine opportunities to trade away from current positions.</p> <p>Mr Thorpe noted that the efficiency of markets like the WEM relies on active decision making in both the bilateral market as well as STEM. Getting the portfolio mix right is implicitly assumed otherwise efficient outcomes are not possible. It was noted that smaller participants need to mix and match between STEM and Bilateral opportunities.</p> <p>The Chair noted that there are currently price signals overnight which participants with bilateral contracts should take advantage of. However, it may be that the market is not yet mature enough to be doing so yet.</p> <p>Mr Thorpe noted that the current barriers that exist in the WEM may be a combination of the barriers created by the design of the market and institutional barriers. In response, the IMO commented that it was uncertain that there was a current market design barrier and considers that opportunities are available if participants want them. Perth Energy noted that it considers that the barriers are mainly institutional as for a retailer it is not feasible to buy and sell in a spot market.</p> <p>Perth Energy stated that the current vesting contract locks up Verve's capacity and energy to Synergy and, in its opinion, prevents the development of a spot market. In response, the IMO noted that the vesting contracts are currently under review and that behaviour in similar markets has often involved trading in spot markets.</p> <p>Mr Thorpe noted that many entities have pre-existing long term contracts, but can, and have entered into shorter-term contracts overnight to back out of these. In response, Perth Energy noted that the vesting contact parties can do this well but questioned how can other parties take advantage of lower spot prices.</p> <p>Griffin Energy noted that in real time there are some design barriers, especially with the day ahead design. In particular, the generator's resource plan must be strictly adhered to and Capacity Credits must be refunded and DDAP paid if adherence is not complied with. In response, Mr Thorpe noted that if Capacity Credits and DDAP are reasons for not backing out of a contract obligation (by trading) then this may be an issue needing resolution.</p> <p>The IMO noted that it is a natural transition for wholesale electricity markets to move to more dynamic markets and that many markets start out a week ahead before evolving to trading closer to real time. The WEM is currently at the point where a stakeholder needs to consider all the available options. Mr Thorpe noted that physical and financial arrangements do not</p>	
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	<p>need to be aligned. In response, System Management noted that this could be the case as long as there are no rules or penalties if a participants moves away from its Resource Plan i.e. the physical market shouldn't restrict the development of the financial market and vice versa.</p> <p>The ERA noted that greater discussion and practical input from Market Participants is required throughout the process but the items up for discussion need to be workshopped. The ERA questioned whether the process for moving forward with the implementation phase allowed for this? In response, Mr Thorpe noted that there is no way that a small team could do this independently and that the end product must be worked through with multiple stakeholders and consultation processes.</p> <p>The IMO noted that a small group will investigate the more detailed design and bring the outcomes from these investigations and discussion through to the MAC for further input. The input of the MAC will be reflected in the outputs. The IMO noted that most the issues outlined as part of the Review process are enshrined in Market Rules Evolution Plan.</p> <p>System Management stated that the Market Rules Working Group (Working Group), the coordination group to assist the implementation of recommendations of the Review, should include System Management. In particular, System Management noted that nearly everything discussed is manifested into operations and therefore it needs to be involved in any preliminary discussions. In response, Mr Oates noted the intention is for the Working Group to be kept small. Mr Oates noted that System Management will be invited to the first meeting but it is uncertain whether they will be always be required to attend. All stakeholders will be invited as the circumstances arise and Mr Oates requested an opportunity to operate under the proposed process and amend if necessary at a later date. System Management was invited to the white board session being held 21 January 2010 to discuss the process forward with the implementation of the outcomes of the Review.</p> <p>System Management questioned the nature of the membership of the working group. Mr Thorpe noted the broad spectrum of issues to be covered and that different people with different expertise would be required to address long term and short term questions. People might not be necessary for the entire process therefore a co-opting approach will be used to ensure that the necessary expertise will be available.</p> <p>The Chair noted that the MAC needs to be mindful that Mr Oates, the Minister and IMO Board have given the MAC a challenge for the design and implementation process following the outcomes of the Review, with a tight timeframe of 15 months from January 2010. The Chair noted that this is a short amount of time to develop, design, and implement rule changes and systems to support this. The Chair noted that pressure will be placed on the MAC but assured Mr Oates that the MAC will</p>	
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	<p>deliver on what is expected of them in this process within the defined timeframe.</p> <p>The OoE noted that as there will be a tight timeframe for Western Power system changes, consideration needs to be given to the longer lead time in terms of government budget process as this might be a limiting factor. This was agreed by all MAC members and the Oates Committee Review Panel.</p> <p>The IMO noted its budget process and the differences to the normal government process. The IMO noted that as long as its costs can be recovered from industry, the Minister is usually supportive.</p> <p>Mr Thorpe asked the meeting if there would be any concerns if the general framework for analysing the operation of market rules and assessing possible amendments followed a similar line to the discussion paper.</p> <p>System Management noted that the issues are reasonably well understood but solutions not so easily obtainable. System Management noted that there is a need to ensure that any recommendations are as practical as possible, given the nature and size of the WEM, for example an instantaneous market is not necessary. System Management noted that it is interested in the views of other members on this.</p> <p>LGP noted that it broadly endorses Mr Thorpe's comments. LGP supported System Management being involved for the majority of the process. LGP noted concern that the co-opting approach may create a potential loop hole allowing for System Management to not be consulted during the process.</p> <p>The ERA requested a one on one discussion with the Review Team on a number of points in the discussion paper.</p> <p>No concerns about the framework in the discussion paper were raised.</p> <p>The IMO noted that the first concept paper will be delivered to the MAC as soon as possible.</p> <p><i>Action Point: IMO and Mr Thorpe to prepare concept paper and deliver to the MAC for discussion as soon as possible</i></p> <p>The Chair thanked attendees of the meeting, noted that a positive start to the process had been made.</p>	<p>IMO and Mr Thorpe</p>
<p>4</p>	<p>NEXT MEETING</p> <p>The next meeting is scheduled for 2.00 pm – 4.00 pm on 10 February 2010.</p>	<p>IMO</p>
<p>CLOSED</p> <p>The Chair declared the special meeting closed at 3.05 pm.</p>		

