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## **Agenda Item 7: Terms of Reference for the Maximum Reserve Capacity Price Working Group**

### **1. BACKGROUND**

Each year the Independent Market Operator (IMO) is required to conduct a review of the Maximum Reserve Capacity Price (MRCP) that sets the cap for the Reserve Capacity Auction in the event that one is held.

The Market Procedure for the determination of the Maximum Reserve Capacity Price<sup>1</sup> (Market Procedure) sets out the principles to be applied and steps to be taken by the IMO in undertaking this process.

Clause 4.16.9 of the Wholesale Electricity Market Rules (Market Rules) requires that the IMO to review the Market Procedure at least once in every five year period. During this review the IMO must undertake a public consultation process in respect of the outcome of the review.

Step 1.15 of the Market Procedure notes that “...the IMO must conduct a review of the methodology used to determine the Maximum Reserve Capacity Price at least once every five years (“Major Review”). This process will review the basis for determining the Maximum Reserve Capacity Price, the structural methodology by which the Maximum Reserve Capacity Price is computed each year and the method the IMO uses to estimate each of the constituent components of the Maximum Reserve Capacity Price”.

The basis of determining the Maximum Reserve Capacity Price shall be reviewed by the IMO with reference to a number of factors including power station characteristics, transmission connection characteristics and fixed fuel costs, among other things.

The IMO considers that this review would be best undertaken with the assistance of a working group established under the auspices of the MAC. The proposed process for the review is contained in Appendix 1.

### **2. PROPOSED TERMS OF REFERENCE**

A proposed Terms of Reference has been developed for the MRCP Working Group (MRCPWG) and is contained in Appendix 2. These Terms of Reference are submitted for review and discussion by the MAC, with a particular focus on the Scope, Initial Terms of Reference, and Deliverables of the working group.

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<sup>1</sup> [http://www.imowa.com.au/f711,231575/Market\\_Procedure\\_for\\_Maximum\\_Reserve\\_Capacity\\_Price.pdf](http://www.imowa.com.au/f711,231575/Market_Procedure_for_Maximum_Reserve_Capacity_Price.pdf)

### 3. LIST OF KEY ISSUES

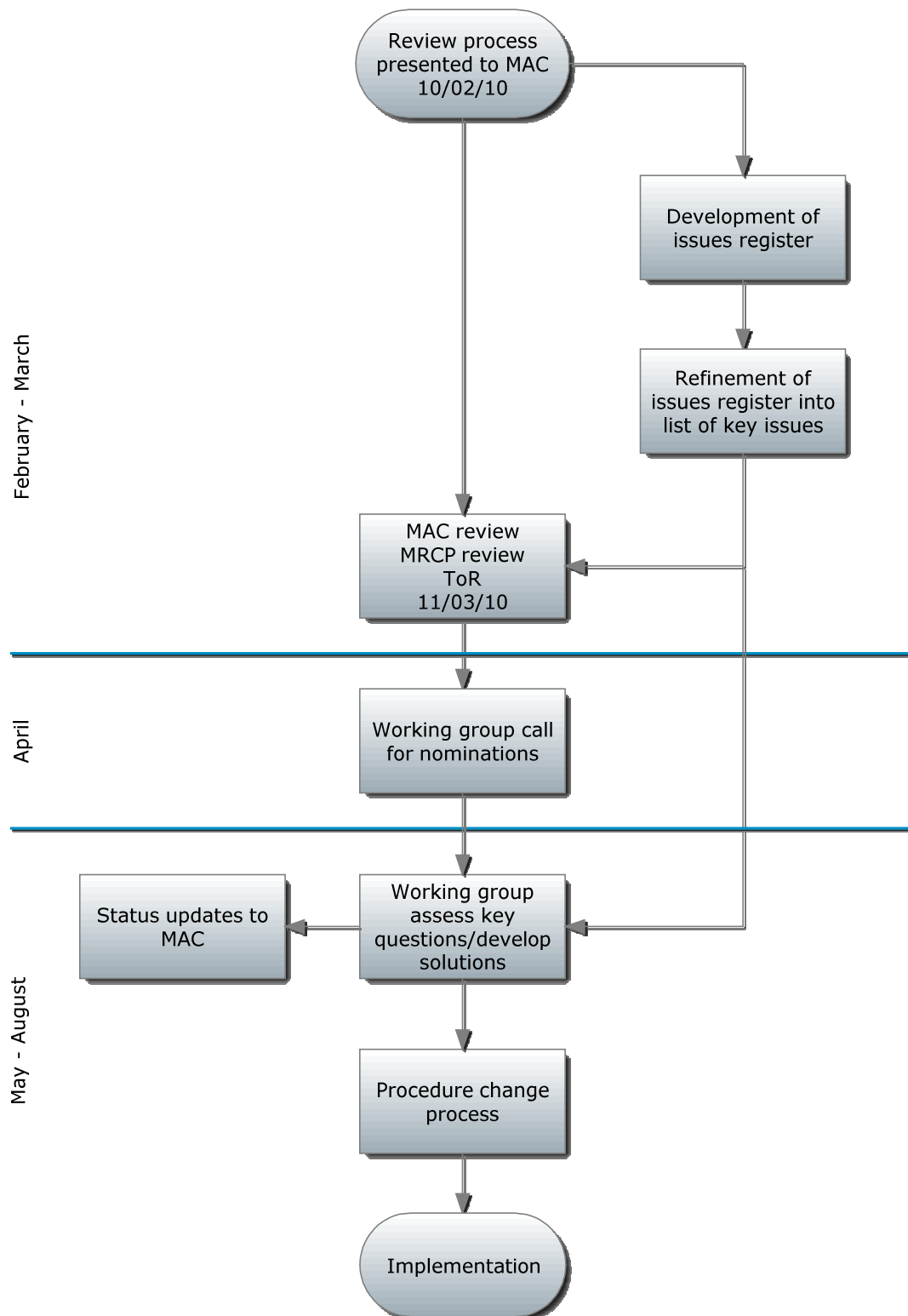
In order to assist the MRCPWG to focus its discussions on the key issues the IMO will prepare a register outlining the key issues that have been raised on the MRCP and its associated processes. This will be presented to the MAC to review and provide comment to the IMO once complete, an prior to the call for nominations.

### 4. RECOMMENDATIONS

The IMO recommends that the MAC:

- **Discuss** and **agree** the ToR for the MRCPWG, contained in Appendix 2 of this paper; and
- **Note** that the IMO will call for nominations for the MRCPWG during April 2010.

## Appendix 1: MRCP 5 year Review Process



## Appendix 2: Proposed Terms of Reference Maximum Reserve Capacity Price Working Group

### 1. BACKGROUND

This Working Group has been established, in accordance with Clause 2.3.17 of the Wholesale Market Rules and the associated Section 9 of the Constitution of the Market Advisory Committee (the MAC). Consistent with these authorised functions and powers, the overarching function of *any* Working Group established under the MAC is to assist the MAC in providing advice to the Independent Market Operator (the IMO) and System Management in matters relating to Wholesale Electricity Market (WEM) Rule and Procedural Change Proposals, WEM operation and South West Interconnected System (SWIS) operational matters, and the evolution of the Market Rules more generally.

### 2. SCOPE

The Maximum Reserve Capacity Price Working Group's (MRCPWG's) Scope of Work includes consideration, assessment and development of changes to Market Rules and Procedures associated with the determination of the Maximum Reserve Capacity Price and the methodology for the determination of the associated Weighted Average Cost of Capital (WACC).

### 3. INITIAL TERMS OF REFERENCE

The initial Terms of Reference for the MRCPWG are to:

- Consider the issues identified in the IMO's Issues Register relating to the functioning of the Maximum Reserve Capacity Price. Identify other critical matters and prioritise the comprehensive register of issues from an impact perspective on the ability of the Wholesale Electricity Market (the WEM) to deliver against its Market Objectives;
- Develop an initial Work Plan for submission to the MAC of issues and an approach to give such issues due consideration; and
- Assess critical/high priority issues and identify possible solutions. Develop an integrated suite of solutions, including drafted Market Rule and Procedure Change Proposals to be presented to the MAC by way of presentation/s and supporting discussion paper/s.

The Terms of Reference include a full impact assessment prior to any recommendations being put forward to the MAC, including:

- Consideration of the implications of any changes to the MRCP on improving the delivery of Market Objectives;
- Detailed feedback as to the implications to the operation of the existing WEM processes and physical outcomes; and
- Consideration of the financial costs and benefits of implementation.

Consistent with Section 9.5 of the MAC Constitution, all matters which are identified as falling outside the Scope and Terms of Reference of this Working Group must be referred back to the MAC for consideration.

#### 4. OBJECTIVES AND PRINCIPLES

The MRCPWG must provide advice and report the extent to which its advice meets or is consistent with the Wholesale Market Objectives and the general principles reflected in the current Market Rules.

The Market Objectives are as outlined in Section 122 of the Electricity Industry Act 2004 and Clause 1.2.1 of the Market Rules.

#### 5. MEMBERSHIP

The MRCPWG consists of a Chair and members appointed by the MAC from nominees, being representatives of Rule Participants and other interested stakeholders. In addition, staff, representatives and consultants of the IMO work with and support the group. Replacement and or new nominees can be submitted to the MAC for consideration at any time.

#### 6. TENURES

The Chair and members are appointed by MAC and remain in tenure until the appointment is duly revoked by the MAC or the Working Group is disestablished.

A member of the Working Group may resign by giving notice to the IMO in writing; this notice of resignation can include an appropriate replacement from the member's entity, for approval by the MAC.

#### 7. RESPONSIBILITY OF THE CHAIR

The Chair provides guidance to the group to ensure that the outputs are appropriate and that they support the Working Group's role of providing advice to the MAC. The Chair works closely with the MAC, the IMO and the Working Group to achieve this.

In carrying out the above role, the Chair must ensure the documented output reflects a balanced representation of the group views.

#### 8. RESPONSIBILITY OF MEMBERS

Members have been selected for their particular expertise and accordingly:

- Members are to make themselves available for meetings;
- Members have a duty to prepare for meetings;
- Members are to consider the interests of all stakeholders currently operating within the WEM;
- Members do not represent their own organisations (although the range of commercial and technical experience inevitably adds diversity to the group's capabilities); and
- Any views expressed by members are not to be taken as being those of their employer or nominating organisation.

## 9. KEY TASKS AND MILESTONES – THE WORK PLAN

The Chair works with the IMO to develop the Work Plan, setting out the key tasks and milestones within the Terms of Reference. The Work Plan must be agreed by the MAC.

The Chair has responsibility for the implementation of the approved Work Plan, efficient meetings of the Working Group and reporting to the MAC on achievement of agreed milestones.

## 10. NATURE OF DELIVERABLES

The MRCPWG delivers reports, advice and comments on the tasks within the scope of the Terms of Reference and as agreed and set out in the Work Plan. Such deliverables may be varied from time to time by direct request from the Chair of MAC.

In some circumstances, the MAC may decide that comments, rather than advice, are required from the group. These circumstances may arise due to:

- Issue complexity and contentiousness;
- Parallel industry wide consultation; and
- Time frames.

The documented output in those circumstances would note the various issues raised by the group and advise on them.

## 11. REPORTING ARRANGEMENTS

Routine reporting will be via Working Group reports to the MAC. Consistent with section 9.4 of the MAC Constitution, the Working Group must report back to the MAC at *least* once every two months.

The Chair will also personally report to the MAC at agreed key milestones. Day to day interaction between the Working Group, the MAC and the IMO will be via the Chair.

## 12. ADMINISTRATION

The MRCPWG activities are to be as transparent as practical, and unless specifically agreed otherwise:

- Papers are to be circulated in advance of meetings;
- Papers are to be published on the IMO website as soon as practical after each meeting;
- Minutes are to be published once confirmed at the subsequent meeting; and
- While consensus will be the goal, it may at times be necessary to accept multiple views. All such views will be conveyed to the MAC as an input into its consideration of the issue.

The Chair must ensure that minutes are kept of all proceedings at meetings of the MRCPWG.

### **13. NOTICE OF MEETING MUST BE GIVEN**

Reasonable notice of meetings must be given to every member, including details of the time and venue.

### **14. QUORUM OF FIVE MEMBERS**

The MAC has tasked this Working Group with matters of significant importance to the future operation of the WEM. For this reason, a quorum for MRCPWG meetings will be five or more members (excluding the Chair) of that group. No business may be transacted at a meeting of the MRCPWG while a quorum is not present. Members of the MRCPWG may send a suitably qualified alternate in their place if they cannot attend a meeting, following approval by the Chair.