

## Independent Market Operator Market Advisory Committee

### Minutes

<b>Meeting No.</b>	SPECIAL MEETING NO. 3
<b>Location:</b>	IMO Board Room Level 3, Governor Stirling Tower, 197 St Georges Terrace, Perth
<b>Date:</b>	Monday 19 July 2010
<b>Time:</b>	Commencing at 9.00 – 10.50 am

Attendees	Class	Comment
Allan Dawson	Chair	
Troy Forward	Compulsory – IMO	
Stephen MacLean	Compulsory – Customer	
Ken Brown	Compulsory – System Management	
Wendy Ng	Compulsory – Generator	
Neil Gibbney	Compulsory – Network Operator	Proxy
Corey Dykstra	Discretionary – Customer	
Steve Gould	Discretionary – Customer	
Peter Huxtable	Discretionary – Contestable Customer Representative	
Andrew Sutherland	Discretionary – Generator	
Shane Cremin	Discretionary – Generator	
Chris Brown	Observer – ERA	
Tony Perrin	Minister's appointee/ Small Use Customers	
Also in attendance	From	Comment
Greg Thorpe	Oates Implementation Review Team	Presenter
Jim Truesdale	Concept Consulting	Presenter
Jenny Laidlaw	IMO	Minutes
Jacinda Papps	IMO	Observer
Matt Pember	IMO	Observer
Fiona Edmonds	IMO	Observer
Rob Pullella	ERA	Observer
John Rhodes	Synergy	Observer
Jason Waters	Verve Energy	Observer
Apologies	From	Comment
Peter Mattner	Compulsory – Network Operator	

Item	Subject	Action
1.	<b>WELCOME</b> The Chair opened the meeting at 9.00 am and welcomed members to Special Meeting No. 3 of the Market Advisory Committee (MAC).	

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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> </ul> <p>Mr Ky Cao had requested to attend the meeting as an Observer, but later sent his apologies.</p> <p>The following other attendees were noted:</p> <ul style="list-style-type: none"> <li>• Neil Gibbney (proxy for Peter Mattner)</li> <li>• Jim Truesdale (Presenter)</li> <li>• John Rhodes (Observer)</li> <li>• Jacinda Papps (Observer)</li> <li>• Matt Pember (Observer)</li> <li>• Greg Thorpe (Presenter)</li> <li>• Rob Pullella (Observer)</li> <li>• Jason Waters (Observer)</li> <li>• Fiona Edmonds (Observer)</li> </ul>	
3	<p><b>PATHWAY DISCUSSION AND DECISION</b></p> <p>The Chair provided a summary of the three pathways under consideration. The Chair noted that the decision before the MAC was not whether to move to option B or C, as any such decision would be subject to a full cost/benefit analysis. The Chair opened the floor to discussion.</p> <p>Mr Corey Dykstra sought clarification of what was encompassed in Pathway 2 with regard to options A1 and A2. The Chair responded that the current expectation was that Pathway 2 would include option A1 and further consideration of options B and C. Mr Dykstra queried whether a decision between options A1 and A2 was therefore implied by the choice of Pathway 1 or Pathway 2. The Chair responded that the key difference between Pathway 1 and Pathway 2 was the decision whether to further consider options B or C. If Pathway 2 was selected but the benefits of options B or C were not found to outweigh the costs then there would be scope to push the A1/A2 options further.</p> <p>Mr Tony Perrin considered that there were timing issues affecting the pathway decision. Mr Perrin noted that significant elements of the industry were currently under financial stress. Further, some significant industry reviews were in progress or scheduled to commence shortly, including the review of the moratoriums on Synergy and Verve Energy, review of the regulatory regimes for gas and electricity franchise tariffs, the Strategic Energy Initiative (SEI) and the Generation Outlook work. The outcomes of these reviews would be working their way out to the public domain in the near future. Mr Perrin considered that a decision to move towards a B or C option was a significant exercise, which should align with the outcomes of these reviews and future policies relating to full retail contestability (FRC) and ownership structure. Mr Perrin considered that given these issues the market may not yet be ready for a Pathway 2/3 decision.</p> <p>Mr Dykstra summarised his view of the history leading up to the current pathway decision from the initial development of the Market Rules Evolution Plan (MREP) in June 2009. Mr Dykstra considered that, looking at the</p>	

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	<p>paper, not much detail had been developed although there was now a better understanding of the relevant issues. Mr Dykstra explained that he had originally supported option B because he had considered that options A1 and A2 did not achieve the required outcomes. Mr Dykstra believed that participants have been artificially constrained in considering options A1/A2, and recommended that the MAC go back to the challenges of the market and reassess what can be achieved in the short term. Mr Dykstra considered that this should not be option A1 or A2, but instead a solution that initially addresses balancing and Reserve Capacity refund issues. Mr Dykstra asked why the MAC could not use the existing Rule Change processes, addressing balancing as the priority.</p> <p>Mr Shane Cremin supported Mr Dykstra's suggestion. Mr Cremin considered that the SEI showed that there were bigger issues facing the market than a B/C decision, and that nothing would be achieved by implementing a good gross/net market without addressing the other issues. Mr Cremin considered that the pathways are all set pieces of work and most participants would be happy to return to the old way of working to address issues such as balancing and Ancillary Services. Mr Cremin suggested that work commence immediately to address balancing issues, using a working group convened under the MAC.</p> <p>The Chair noted that this proposal was not inconsistent with Pathway 1, except that Pathway 1 represented a "beefed up" process with additional funding. There was no suggestion to not use the normal Rule Change process. The Chair noted that the pathway label related primarily to funding.</p> <p>Mr Andrew Sutherland noted that choosing Pathway 2 did not equate to demanding a move to a B/C option. Mr Sutherland considered that participants still did not fully understand the details of these options, for example what the options would cost Verve Energy, System Management, etc. The Chair commented that the Market Rules Design Team (MRDT) had found options B and C difficult to cost and that to refine the estimates it would be necessary to look at specific design features.</p> <p>Mr Sutherland noted that his main concern is the balancing and reserve capacity refund issue, considering that if a generator was out for a month in summer they could be placed under severe financial stress by the current penalties. The Chair noted that balancing, UDAP/DDAP and Reserve Capacity refund issues were inextricably linked.</p> <p>Mr Sutherland considered that no-one knew what options B or C would look like or what benefits they would bring to the market, and therefore these options need further design review for a proper cost/benefit analysis. The Chair noted that at this stage the costs were also not well defined and that the Minister and the ERA would need to be convinced that the benefits of moving to a B/C option were sufficient. The Chair considered that the benefits would need to exceed the costs for approval to be likely. Mr Sutherland considered that Mr Dykstra's suggestion was good, but questioned whether it would also be possible to look further at the B/C options.</p> <p>Mr Perrin noted that currently IMO and participant resources are spread very thinly. Mr Perrin discussed some of the balancing issues relating to renewable energy and suggested that the cost of balancing may increase</p>	

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	<p>significantly by 2015, providing greater benefits for the B/C options.</p> <p>Mr Ken Brown stated that he had considered the three pathways but would like to see some critical issues addressed as soon as possible. Mr Brown suggested that the main balancing, UDAP/DDAP and Reserve Capacity refund issues should be addressed first, and the market then reassessed to see how large a problem remained. Mr Brown considered that the baseline for a cost/benefit analysis of option B or C should be taken after these key issues have been addressed within the current hybrid market design. Mr Cremin agreed that it was possible to do more within the current market design, noting as an example the options for Ancillary Services recently suggested by System Management. Mr Brown suggested that this approach may fix 60-80% of the problems, but that if it did not a B/C option could then be pursued. Mr Brown considered that the decision to move to a B/C option should not be made by a MAC working group alone.</p> <p>Mr Perrin questioned whether it was appropriate for a B/C decision to be driven from the MAC, given that it was fundamentally a policy decision. The Chair responded that the intention behind Pathways 2 and 3 was to investigate the options and present information to the appropriate decision makers. There was no suggestion that the MAC would make the decision to implement either option.</p> <p>Mr Dykstra noted that the WEM had come a long way since it began less than four years ago. Mr Dykstra considered that its shortcomings related mainly to the areas referred to as “mechanisms”, where it had not been possible to implement a “market” in the first instance. Mr Dykstra suggested that it was now possible to look at establishing markets to replace some of these mechanisms. Mr Dykstra considered that talking about options such as A1 or A2 results in a loss of clarity about what the issues are. Mr Dykstra again suggested that the MAC focus on addressing balancing issues, possibly using Balancing Support Contracts and/or implementing an approach similar to that proposed by System Management for Ancillary Services. Mr Dykstra stated that just modifying the balancing price would not fix the problems.</p> <p>The Chair responded that the pathways were covering these issues, noting that there is no point in looking at Ancillary Services if issues such as UDAP/DDAP and Reserve Capacity refunds are not addressed. The Chair considered that the only difference between business as usual and Pathway 1 is the additional funding under Pathway 1 to expedite the development process.</p> <p>Mr Dykstra considered that the work arising from the Verve Energy Review had actually stalled the MREP process, which was now behind its original schedule. The Chair and Mr Perrin disagreed with this opinion, considering that there had been significant progress in identifying the issues and in high level design.</p> <p>Mr Troy Forward stated that there are operational choices and also a strategic choice to be considered. Choosing Pathway 1 takes away the strategic choice to look further at options B and C. The operational aspects will always be subject to debate as to what provides the most benefit to the market. Mr Dykstra responded that he did not believe that choosing Pathway 1 removed the future consideration of options B and C completely.</p>	

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	<p>The Chair considered that sometimes it is easier to embark on strategic paths than at other times, and while the B/C options could be raised in the future it was easier to do this now. Mr Perrin questioned this view, considering that there was not a broad understanding of the benefits arising for end consumers. While Mr Perrin believed that competition would give the best result to consumers in the medium term, he did not consider that there was a general acceptance of this at present. Mr Cremin reiterated his opinion that there was no point in implementing a sophisticated market design if there was no competition. Mr Perrin added that security of supply was a key consideration for stakeholders.</p> <p>Mr Greg Thorpe considered that there had been too much emphasis on pathway labels. The A1/A2 options were basically business as usual, with the key point being that Verve Energy remained the primary balancer. Mr Thorpe considered that the key question was whether, if changes are made, the market retains or moves away from the “special relationship” with Verve Energy. Mr Thorpe agreed that it was a dramatic change to go to option B or C. Under the A options it would be possible to move towards either a net or a gross market, and it would be necessary to decide a direction even for incremental changes.</p> <p>Mr Thorpe considered that Pathway 1 meant committing to the special relationship. Mr Dykstra questioned whether Mr Thorpe meant committing to the special relationship for the life of the relevant IT systems. Mr Thorpe confirmed that this was the case. Mr Dykstra considered that the expected life of these systems was around 5-7 years. The Chair noted that the systems would be written off after 3 years.</p> <p>There was some discussion about how/whether it was possible to predict if the hybrid model would be adequate for the life of the IT systems. Some of the issues that might impact on a future market decision were also discussed, including FRC, a move towards a constrained grid, gas supply issues and the growth in renewable energy.</p> <p>Mr Ken Brown reiterated his concern about assessing the benefits of option B or C against the current state, before the short term balancing issues have been addressed. Mr Brown considered that this would result in an exaggeration of the benefits of these options. Mr Jim Truesdale noted that the paper indicated only the benefits that would need to be realised to make these options viable.</p> <p>The Chair indicated that the expected timeline for Pathway 1 was 1-2 years. Mr Ken Brown and Ms Wendy Ng questioned why the timeline was so long. Mr Forward noted that under the Market Rules a standard Rule Change Proposal took at least four to five months to process and commented that it would be difficult to justify fast-tracking the amendments under the existing criteria.</p> <p>The Chair noted that a lot of the analysis had already been done and that the next problem was to agree and prioritise the work. The Chair considered that the prioritising needed to be done in the next MAC meeting (11 August 2010).</p> <p>Mr Cremin stated that some participants would like to be more involved in</p>	

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	<p>the design process to develop their understanding of the issues.</p> <p>The Chair questioned whether consideration of the B/C options is a wider policy issue outside the remit of the MAC. There was some discussion about the appropriate group to consider this issue and the likely scope of such a group. Mr Perrin considered that the MREP represented a path of continuous improvement within the remit of the MAC, while a B/C decision represented a discontinuous change that should be subject to a different decision making process.</p> <p>Mr Dykstra stated that he could not see any driver from industry to look at the B/C options at this time. Mr Dykstra reiterated his view that the MAC should look at balancing, UDAP/DDAP and Reserve Capacity refunds as a priority and his concerns about the use of option and pathway labels.</p> <p>In response to a query from Mr Thorpe, Mr Dykstra confirmed that he is happy with the current hybrid market design at present. The Chair stated that Pathway 1 is just a condensed version of the MREP, and that it was easier in terms of stakeholder management and the acquisition of funding to use the pathway label. Mr Forward noted that the functional decisions for Pathway 1 are still to be worked through. The Chair commented that more can be added to Pathway 1 if required.</p> <p>Mr Dykstra considered that in terms of balancing, Pathway 1 only deals with partial IPP involvement. Mr Truesdale disagreed, considering that there are other possibilities that could be considered and that the design was not fixed. Mr Dykstra advised that he would be happy if the MAC were to label a set of issues to be addressed as Pathway 1, without prescribing solutions. The Chair replied that he was happy to define Pathway 1 as pushing the existing hybrid market model as far as possible. Pathway 1 involved taking consideration of options B and C off the table due to the shortage of resources and uncertainty about whether the MAC was the correct body to consider this.</p> <p>Mr Dykstra reiterated that Alinta's original support for the more mature market options was due to its concern that the A1/A2 options did not address the key issues. Mr Cremin considered that other industry participants had supported the B and C options for this reason. Mr Cremin noted that he had originally rejected A1/A2, but now sees more flexibility in these options. Mr Cremin expected that eventually the market would need a more mature model, but noted the current struggles facing participants.</p> <p>Mr Dykstra suggested that it was not realistic to contemplate options B or C at the MAC level, as this could require consideration of issues such as the future separation of the IMO and System Management.</p> <p>Mr Forward informed the MAC that he had received a message from Mr Ky Cao, who was unable to attend the meeting. Mr Cao had sent his apologies and advised that he would support any decision to pursue options A2, B or C.</p> <p>In response to a question from the Chair, the MAC agreed that this was not the time to consider the B/C options. The Chair then asked if the advice of the MAC to the IMO Board was to pursue Pathway 1, which involved pushing the current hybrid market design as far as possible in order to</p>	

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	<p>address MREP issues and the issues from the Verve Energy Review. The Chair noted that the IMO Board would consider this advice if offered and convey it to the Minister.</p> <p>Mr Ken Brown queried why any advice needed to go to the Board if the decision was effectively to continue with business as usual. The Chair replied that the aim was only to advise the Board, and that no approval was being sought.</p> <p>Mr Cremin noted that there was little difference between Pathway 1 and Pathway 2, with Pathway 2 having just an additional step to look at the B/C options. Mr Cremin queried whether the MAC was missing an opportunity in choosing Pathway 1. Mr Forward noted that the expectation for Pathway 2 was for two working groups operating in parallel, one focussing on the short term fixes as per the MREP and the other undertaking a cost/benefit analysis for the B/C options. Mr Dykstra suggested that if industry wished to see further exploration of the B/C options then a letter requesting this might be sent to the Office of Energy and/or the Minister.</p> <p>Mr Peter Huxtable queried whether the MAC should develop an approach with regard to the B/C options, to prevent design decisions under Pathway 1 that might interfere with future developments. The Chair responded that the existing model will always have problems, and that no Pathway 1 changes would preclude moving to either option B or option C in the future.</p> <p>Mr Sutherland raised a query about the cost/benefit basis for decisions under Pathway 1, citing a proposed rewrite of the WEM rules engine at a cost of \$1 million as an example. Mr Dykstra considered that some replacement of old IT systems will need to be done under any circumstances. The Chair agreed, noting that the systems under consideration would have no value by 2015. Mr Dykstra considered that such IT costs were not really a constraint on a future B/C decision due to the lead times involved.</p> <p>There was further discussion to confirm the details of the MAC's decision. Mr Dykstra was happy with the decision as described by the Chair, but stated that he would like to review the actual wording before confirming his agreement.</p> <p><i>Action Point: The IMO to circulate a draft of the MAC pathway decision to MAC members for review and comment.</i></p> <p>Ms Ng sought clarification on the implementation approach, querying whether there would be a series of implementations or one large implementation. The Chair responded that this was something to decide in the August 2010 MAC meeting, and that the approach would in part depend on what changes needed to be packaged together.</p> <p>The Chair thanked the MAC members for their engagement in the process. The Chair advised that he will get the wording of the pathway decision out for MAC review as soon as possible.</p>	IMO
<b>12</b>	<p><b>NEXT MEETING</b></p> <p>Meeting No. 30 will be held 11 August 2010 (2:00-5:00pm).</p>	

Market Advisory Committee

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<b>CLOSED:</b> The Chair declared the meeting closed at 10.50am.		