

## Independent Market Operator

### Market Advisory Committee

#### Minutes

<b>Meeting No.</b>	36
<b>Location</b>	IMO Board Room Level 3, Governor Stirling Tower, 197 St Georges Terrace, Perth
<b>Date</b>	Wednesday 9 March 2011
<b>Time</b>	Commencing at 2.00 pm

<b>Attendees</b>	<b>Class</b>	<b>Comment</b>
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	
Michael Zammit	Discretionary – Customer	
Peter Huxtable	Discretionary – Contestable Customer Representative	
Andrew Sutherland	Discretionary – Generator	
Shane Cremin	Discretionary – Generator	
Ben Tan	Discretionary – Generator	
Chris Brown	Observer – ERA	
Paul Biggs	Small Use Customer Representative	
<b>Apologies</b>	<b>Class</b>	<b>Comment</b>
Nerea Ugarte	Minister's appointee	
<b>Also in attendance</b>	<b>From</b>	<b>Comment</b>
Jenny Laidlaw	IMO	Minutes
Pablo Campillos	EnerNOC	Observer
Wana Yang	ERA	Observer
Jacinda Papps	IMO	Observer
Fiona Edmonds	IMO	Observer
Courtney Roberts	IMO	Observer

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1.	<p><b>WELCOME</b></p> <p>The Chair opened the meeting at 2.00 pm and welcomed members to the 36th meeting of the Market Advisory Committee (MAC).</p> <p>The Chair welcomed new members Mr Ben Tan and Mr Michael Zammit to the MAC, and congratulated Mr Corey Dykstra, Mr Shane Cremin and Mr Peter Huxtable on their reappointments.</p> <p>The Chair reminded members that they had been appointed as representatives of a participant class rather than the specific entities for which they worked. MAC members were obliged, under the MAC Constitution, to act in the best interests of the market.</p>	
2.	<p><b>MEETING APOLOGIES / ATTENDANCE</b></p> <p>Mr Paul Biggs offered an apology for Ms Nerea Ugarte.</p> <p>The following other attendees were noted:</p> <ul style="list-style-type: none"> <li>• Pablo Campillos (Observer)</li> <li>• Wana Yang (Observer)</li> <li>• Jacinda Papps (Observer)</li> <li>• Fiona Edmonds (Observer)</li> <li>• Courtney Roberts (Observer)</li> </ul>	
3.	<p><b>MINUTES OF PREVIOUS MEETING</b></p> <p>The minutes of MAC Meeting No. 35, held on 9 February 2011, were circulated prior to the meeting. The Chair noted that Mr Andrew Everett and Mr Dykstra had sent emails to MAC members clarifying statements they had made during the meeting.</p> <p>The following amendments were agreed.</p> <p><b><i>Page 6: Section 4a: Worked example of dispatch of a peaker versus DSM (Action Point 121)</i></b></p> <ul style="list-style-type: none"> <li>• “Mr Zammit noted that it would be incorrect to assume the marginal cost for all DSPs to reduce consumption would all be the same. Mr Dykstra noted <u>that it would be reasonable to assume</u> that a peaker has a high capital cost and a lower ...”</li> </ul> <p><b><i>Page 11: Section 6c: De-registration of Rule Participants who no longer meet registration requirements [PRC_2010_31]</i></b></p> <ul style="list-style-type: none"> <li>• “Mrs Papps submitted that if the Rule Participant does not apply for de-registration and pay the de-registration fees then the IMO is faced with the costly and time-consuming process of going to the ERB to de-register the Rule Participant. The IMO considers that it should be able to de-register a Rule Participant in <u>these circumstances the circumstances listed in the paper</u> without the need to apply to the ERB. Mrs Papps noted that the Pre Rule Change Discussion Paper PRC_2010_31 outlines a proposed process which allows the IMO to do so.”</li> </ul>	

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	<ul style="list-style-type: none"> <li>• “The Chair noted that this situation has already occurred in the market. The IMO had issued cure notices to a company in liquidation, which did not wish to remain a Market Participant but was unable to pay the required de-registration fee. Mr Dykstra <u>queried whether the fees were cost-reflective. Mrs Papps confirmed that this was the case. Mr Dykstra suggested incorporating these fees with registration fees. <del>considered that de-registration fees were not cost-reflective and suggested removing them.</del></u> Mrs Papps responded that this would not remove the problem completely as the IMO would still need to initiate the de-registration process in some cases.”</li> <li>• “Mr Dykstra queried whether it really mattered if these Rule Participants were not de-registered. Mr Dykstra noted that a significant amount of paperwork was involved in the registration of a Rule Participant, and suggested that it could be <u>useful to leave valuable to an inactive Rule Participant to keep</u> the option to retain its registration status.”</li> </ul> <p><b>Page 15: Section 8c: RDIWG Update</b></p> <ul style="list-style-type: none"> <li>• “Mr Dykstra queried when the <del>pricing</del> scenarios being developed by the IMO would be distributed to RDIWG members. The Chair replied that these would be circulated as soon as possible, and that the Market Evolution Program team had been reminded of the urgency of the work. Mr Forward noted that one scenario had been reviewed with System Management the previous day.”</li> </ul> <p><b>Page 16: Section 9a: Operational workload and the Market Evolution Program</b></p> <ul style="list-style-type: none"> <li>• “Mr Dykstra considered that the IMO was not obliged to progress all of the proposals submitted to it. Mr Forward asked if MAC members wished the IMO to exercise this option more frequently. The Chair considered that the IMO was never too busy to progress a proposal. Mr Andrew Everett <del>agreed that a resources shortage was not a valid reason to not progress a proposal</del> <u>considered each participant should determine their level of engagement and resource appropriately.</u></li> </ul> <p>Mr Campillos queried whether Mr Dykstra was suggesting an increase in the combination of related changes into Rule Change Proposals. Mr Dykstra replied that he was unhappy with the current threshold for the acceptance of Rule Change Proposals by the IMO, considering that <del>it should be stronger</del> <u>the burden of proof should be higher.</u> Mr Dykstra considered that some recent proposals should not have been accepted by the IMO and that more work should have been done upfront.”</p> <p>Subject to the agreed amendments, the MAC endorsed the minutes as a true and accurate record of the meeting.</p> <p><i>Action Point: The IMO to amend the minutes of Meeting No. 35 to reflect</i></p>	<p><b>IMO</b></p>

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	<i>the points raised by the MAC and publish on the website as final.</i>	
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>• <b>Item 88/89:</b> Mr Troy Forward suggested that Items 88 and 89 be removed from the list of MAC Action Points, on the understanding that the Office of Energy will distribute the report when it is ready. Mr Biggs agreed to Mr Forward's suggestion, and advised that the report should be ready for circulation in the next few weeks.</li> </ul> <p><i>Action Point: The IMO to remove Items 88 and 89 from the list of MAC action points.</i></p> <ul style="list-style-type: none"> <li>• <b>Item 119:</b> To be undertaken in March 2011.</li> <li>• <b>Item 130:</b> Mr Forward considered that new load information was often considered to be sensitive and participants had raised issues in the past about specific load information published by the IMO. Given the speculative nature of the information the IMO proposed to not separately identify large new loads, although it will continue to publish forecast new loads as an aggregated block.</li> </ul> <p>Mr Stephen MacLean questioned whether the IMO was happy that it had enough information on new loads, suggesting that MAC members would be able to provide additional information if asked. Mr Forward responded that it was normal practice for the IMO to meet with representatives from companies developing new loads as part of its due diligence. Mr MacLean noted that Synergy was keen to talk to the IMO about expected new large loads. Mr Forward noted that he had recently met with Mr Simon Middleton from Synergy.</p> <ul style="list-style-type: none"> <li>• <b>Item 167:</b> Mr Forward noted that this action point was now complete. Mr MacLean noted that the study dated back to 2003, suggesting that a study of this nature should be undertaken every few years. Mr Ken Brown agreed with Mr MacLean, noting that system inertia was changing over time.</li> <li>• <b>Item 12 (2011):</b> Underway.</li> <li>• <b>Item 14:</b> Mr Forward noted that after considering the comments of MAC members the IMO suggests the removal of the proposed changes to the Relevant Demand calculation from the Rule Change Proposal: Curtailable Loads and Demand Side Programmes (RC_2010_29). The Relevant Demand calculation options were worthy of investigation at a more detailed level, which would probably involve an industry forum given the level of interest in the issue. Mr Forward proposed that RC_2010_29 should continue to progress without the Relevant Demand components.</li> </ul>	IMO

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	<p>There was some discussion about whether a Relevant Demand workshop could be tied to the proposed review of the recent Varanus Island incident and its impact on the Wholesale Electricity Market (WEM). Mr Zammit considered that it would be preferable to keep these workshops separate, as they would have slightly different audiences. Mr Zammit suggested that in order to compare Relevant Demand options it will be necessary to go into a great level of detail about potential impacts. The Chair suggested that the initial workshop should focus on the Varanus Island events, and that the lessons learnt from these events should be used as an input to the development of any Relevant Demand workshops.</p> <p>Mr Dykstra stated that he had hoped the outcomes of the Varanus Island incident would feed into the IMO's review of the Reserve Capacity Mechanism (RCM), as it would provide a good example of what worked and what did not work. Mr Dykstra noted that Alinta had expressed in its submission on RC_2010_29 a preference to delay the progress of the Rule Change Proposal until the outcomes of the RCM review are known. Mr Forward noted Alinta's submission but stated that the IMO preferred not to wait to progress RC_2010_29. In response to a query from Mr MacLean, the Chair advised that the Draft Rule Change Report for RC_2010_29 was now due to be published on 18 March 2010.</p>	
5a	<p><b>MARKET RULE CHANGE OVERVIEW</b></p> <p>The MAC noted the Market Rule Change Overview.</p> <p>The Chair noted that extensive analysis had been undertaken in relation to the Renewable Energy Generation Working Group (REGWG) Work Package 3 Pre Rule Change Discussion Paper: Ancillary Services Payment Equations (PRC_2010_27) and the Rule Change Proposal: Cost_LR (RC_2010_33). During this analysis the IMO identified some cases of vague and inconsistent use of units (MW versus MWh) in the Market Rules, and as a result has found the need to change some of the inputs into the settlement equations. This should have been mentioned in the Draft Rule Change Report for RC_2010_33. As a result the IMO will be required to make some amendments to its settlements system.</p>	
5b	<p><b>ANCILLARY SERVICES PAYMENT EQUATIONS [PRC_2010_27]</b></p> <p>Mr Forward noted that the Pre Rule Change Discussion Paper: Ancillary Services Payment Equations (PRC_2010_27) originated from the outworkings of REGWG Work Package 3: Frequency Control Services. The paper was first presented to the MAC at its November 2010 meeting, where the IMO undertook to complete the development of the Pre Rule Change Proposal.</p> <p>Mr Forward noted that the cover paper for PRC_2010_27 outlines the approach the IMO has taken to a number of issues, including issues raised in the original Pre Rule Change Discussion Paper and issues raised following internal IMO review and discussions with external stakeholders. The updated paper has been brought back to the MAC for</p>	

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	<p>discussion about the next steps to be taken.</p> <p>Mr MacLean noted that the paper was still a Pre Rule Change Discussion Paper. Mr MacLean supported the decision to commission an independent technical review of the drafting. Mr Everett and the Chair agreed that the proposal had become very complex.</p> <p>Mr Dykstra queried the linkages between this proposal and the Rules Development Implementation Working Group (RDIWG) proposals relating to balancing. Mr Forward considered that while the RDIWG proposals around a competitive market for balancing and Ancillary Services may affect the availability cost calculation aspect of the proposal, they did not affect the Load Following cost allocation component.</p> <p>Mr Dykstra stated that his question related to the cost calculation aspect of the proposal, noting that the paper was proposing new availability cost calculations while the IMO was also working on a market mechanism for Load Following Ancillary Services. Mr Dykstra questioned why changes to the availability cost calculations should be made now if a market concept is due to be developed within a couple of months. Mr Forward reiterated that the IMO had undertaken to finish the task that had been started, but agreed that it could be appropriate to move this work across to the Market Evolution Program (MEP). Mr Forward noted that the MEP had only recently taken on responsibility for work on the development of a competitive market for Load Following Ancillary Services (LFAS).</p> <p>Mr Dykstra considered that the proposal appeared to be more complicated in terms of the proposed availability cost calculations than the original ROAM Consulting proposal. Mr Forward responded that while the cost calculation principles were unchanged from ROAM's original proposal, further detail had been added to the paper to fill in some of the gaps in the original drafting.</p> <p>Mr Cremin considered that greater efforts should be made to reduce Load Following requirements and costs before focussing on changes to cost allocation. Mr Cremin noted changes made to the technical requirements for wind farms in the National Electricity Market, to reduce the quantity of Ancillary Services required. Mr Cremin considered that the proposed allocation process sends the wrong messages, as it does not encourage individual Intermittent Generators to reduce the Load Following requirements of their facilities. Mr Cremin submitted that there was a general acceptance that Intermittent Generators were inherently inefficient, and that the "smearing" of Ancillary Services costs was in line with the principle underlying the use of Renewable Energy Certificates (RECs). Mr Cremin submitted that in any case these costs would eventually be allocated to Loads.</p> <p>The Chair questioned whether members had a problem with the cost calculation changes or the cost allocation changes. Mr Cremin reiterated that he considered the allocation methodology to be bad, as it did not give any incentive to an Intermittent Generator to reduce its Load Following requirement. Mr Dykstra considered that given the current MEP</p>	

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	<p>balancing proposal the proposed cost calculation changes were premature, particularly if the current equations will remain workable in the short term.</p> <p>Mr Dykstra also considered that the allocation issue needed to be discussed further, suggesting that participants would not respond to the proposed “pricing signals” due to the requirement to meet renewable energy targets. Mr Dykstra stated that the Minister had provided guidance but he would expect Synergy would be expected to obtain its RECs locally.</p> <p>Mr MacLean noted that Synergy’s concern was that the market does not have a position as yet. Mr MacLean agreed that Mr Cremin had a point about how the market should give the right signals to investors in renewable generation, and did not think that the REGWG had had time to consider this properly. Mr Forward responded that there was no argument about the need to develop an appropriate approach, and that PRC_2010_27 was back on the table to allow consideration of other recent developments.</p> <p>Mr Dykstra noted that the two components of the proposal (cost calculation and cost allocation) could be progressed separately, and agreed with Mr Cremin that the costs of Intermittent Generators will be ultimately borne by Loads.</p> <p>Mr Dykstra submitted that the economic efficiency of the market would not be affected by changing this allocation of costs. The Chair responded that the change would send more appropriate signals to investors. Mr Dykstra responded that these costs would be passed through to Loads in an efficient market, and so questioned why the market should bother with the changes. The Chair and Mr Everett responded that Loads may choose not to meet their renewable targets by contracting Intermittent Generation in Western Australia. There was some discussion about whether Market Customers would seek to obtain their RECs from within Western Australia.</p> <p>Mr Ken Brown noted that several jurisdictions around the world were working on how to handle the impact of wind generation. Mr Dykstra suggested that some of the issues relating to wind generators should be included in the IMO’s review of the RCM. Mr Brown noted the ongoing improvements to wind farm technologies and the trend towards the tightening of requirements for wind farms in technical rules.</p> <p>The Chair considered that the proposal reflected the basic principle of “causer pays”. Mr Everett noted that the original aim of the proposal was to correct problems with the cost calculation formulas and to implement the causer pays principle. Mr Everett considered that the proposal had become complicated and there was a question of what it would cost, but suggested that if this cost was acceptable then the IMO should progress the proposal.</p> <p>Mr Forward noted the issues that had been raised about the source and time-granularity of some of the parameters used in the PRC_2010_27</p>	

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	<p>calculations. Mr Forward considered that a trade-off existed between accuracy and cost/complexity, and that while the appropriate balance could be debated the immediate question was whether or not to progress PRC_2010_27.</p> <p>Mr Everett queried the decision by the IMO not to include Verve Energy's suggested amendments to the cost allocation calculations to cater for solar facilities. Mr Forward responded that the lack of solar facilities in the WEM and the lack of available information on solar facility fluctuations had led to the IMO's decision. Mr Everett suggested that the amendments did not require a great deal of effort and so could easily be included now.</p> <p>Mr Dykstra noted that Alinta, in its submission to the ERA on the 2010 Review of Margin_Peak and Margin_Off-Peak, had raised its concerns about the "black box process" used to determine the margin values, suggesting that it should be possible to assess how accurate the models are at predicting costs. Mr Dykstra considered that the proposed cost calculations were based on the same basic approach as the current calculations, and so before embedding these basic availability cost concepts further he would want an idea of how well these models were working.</p> <p>Mr Forward asked whether the proposal should be progressed given the status of the MEP work on balancing and Ancillary Services. The Chair considered that there was an obligation to send clear signals to potential investors in Intermittent Generators, so that they are aware of the costs coming their way. Mr Andrew Sutherland queried how a developer would be able to determine what these costs would be.</p> <p>Mr Cremin reiterated his view that the proposal would only shift costs to Intermittent Generators and then back to Loads. The Chair considered that this would not necessarily be the case. There was some discussion about the financial impact of the proposed changes on Intermittent Generators and whether Market Customers would accept the pass through of Load Following costs from generators or seek to obtain their RECs through other sources.</p> <p>Mr Dykstra raised the problem for current Intermittent Generators with existing bilateral contracts, who might be unable to pass through any new Ancillary Services costs to their customers. The Chair noted that the IMO Board had started to look at options for the deferral of rule changes that impose these costs, and had requested examples of such deferrals from the National Electricity Market (NEM). The Chair considered there was a need to decide how to send the correct signals to new investors and also deal with those that have made decisions in the past.</p> <p>There was further discussion about how the overall Load Following requirement might be reduced through changes to the technical rules applying to wind farms. Mr Brown noted that while there are ways to limit Ancillary Services requirements by limiting wind generation, these approaches could affect the financial viability of these generators. Mr MacLean considered that a price exceeding -\$40 may be required to</p>	



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	<p>encourage wind farms to reduce output, as there were other issues to be considered apart from compensation for lost RECs.</p> <p>Mr Ben Tan suggested that a proposal to send signals only to new Intermittent Generators raised issues of regulatory risk. Mr Forward responded that continuing to do nothing about the issues also imposed a regulatory risk.</p> <p>Mr Paul Biggs raised a concern about the impact of the proposal on the other (non-wind) types of renewable generation. Mr Forward considered that the first step should be to address the current issue (wind generation), while the next step would be to look at differentiation of treatment for the various types of renewables. Mr MacLean considered that there was an immediate problem to be addressed as a variety of renewable generators already existed. Mr Forward noted the complexity of introducing additional Facility classes into the Market Rules.</p> <p>The Chair expressed support for the suggestion made by Mr Cremin to include incentives for Intermittent Generators to reduce their Load Following requirements. Mr Dykstra considered that in relation to cost allocation, it was desirable to send the right signals going forward. Mr Forward noted that the proposal assumed common treatment of both new and existing generators. Mr Dykstra considered that the benefits outlined in the proposal related to new investments. The Chair replied that investments in existing plant to reduce the cost impact were also encouraged. There was further discussion about the financial impact of the proposal.</p> <p>Mr Sutherland considered that currently there is no information available to allow generators to adjust their activities, submitting that there was no way for a generator to tell if its Ancillary Services bills were wrong or right. The Chair noted his long standing concerns about the settlement systems not making timely information available to participants. Mr Cremin noted that Griffin Energy had been working on analysing its statements, and that it was very difficult to understand the reason for large changes in costs between one Trading Interval and the next. The Chair considered that the MEP aimed to make more information available to participants, and noted that he was keen to better understand Mr Cremin's issue around variations in Ancillary Service costs between Trading Intervals.</p> <p>The Chair asked MAC members for their thoughts on the next steps for PRC_2010_27. Mr Everett suggested that the proposal be formally submitted as a Rule Change Proposal, to allow for a formal submissions process. Mr MacLean queried when the technical review of the calculations would occur, but noted that a technical review should not hold up the progress of the proposal. There was some discussion about the IMO Board's ideas about the deferral of rule changes.</p> <p>Mr Dykstra considered that the proposal was significantly more complex than originally expected. As the proposal extended a concept for cost calculation that already existed, data for a few years was available to allow a check of the robustness of the general approach. Mr Dykstra</p>	

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	<p>considered that the current equations were workable in the short term and that the MEP balancing proposal should expect to change how unit costs are allocated here. Mr Dykstra suggested that the MEP work and a review of the current methodology should be undertaken first, and that the cost calculation changes should only be progressed if the MEP proposals come to nothing. Mr Dykstra considered that there did not appear to be any benefit with proceeding with these changes now, noting that ROAM Consulting had also recommended the introduction of a competitive Ancillary Services market.</p> <p>Mr Forward noted that as System Management had undertaken to develop a proposal for a competitive Ancillary Services market the REGWG had not pursued the recommendation further. Mr Ken Brown stated that he did not want people to think that there will be a plethora of Ancillary Service providers available after the implementation of the MEP proposals, noting the dependency on Open Cycle Gas Turbine (OCGT) generators for Frequency Keeping.</p>	
5c	<p><b>REASSESSMENT OF ALLOWABLE REVENUE DURING A REVIEW PERIOD [PRC_2011_02]</b></p> <p>Mr Chris Brown provided an overview of the ERA's Pre Rule Discussion Paper: Reassessment of Allowable Revenue during a Review Period (PRC_2011_02). Mr Brown noted that while the IMO's budget for the MEP was in the order of \$7 million, under the current Market Rules the ERA had not been required to review the proposed expenditure. This triggered a concern (shared by both the ERA and the IMO) that such a large amount of expenditure could be exempt from review, leading to the development of PRC_2011_02.</p> <p>The Chair advised that when the IMO went to the ERA to seek approval for a Declared Market Project the ERA had advised that this was not in its jurisdiction. The IMO, however, has still provided the ERA with all the information it would normally provide for such a review. The IMO supports the proposal as it provides both the market and the Minister with protection from the IMO or System Management embarking on major projects without review.</p> <p>Mr Brown considered that issues 2 and 3 in PRC_2011_02 were closely related. Mr Brown noted that in PRC_2011_02 the ERA proposed a reduction in the threshold level for the triggering of a review from 15 percent of Allowable Revenue in a Review Period to 10 percent. However, Mr Brown noted that this was based on a "gut feeling" and that the ERA wished to discuss the appropriate threshold level with MAC members.</p> <p>With regard to issue 3, Mr Brown noted that if the IMO or System Management exceeded their budget without ERA review and approval they were taking a risk in that the ERA might reject the additional expenditure in a future period. The ERA has proposed new rules allowing the IMO or System Management to ask the ERA for an assessment regardless of whether the expenditure threshold has been reached. This would provide in effect a pre-determination, giving certainty that the</p>	

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	<p>expenditure would not be rejected in future. Mr Brown noted that as the monetary amounts involved may be small, the ERA has sought discretion on whether to publicly consult on a review or not.</p> <p>In response to a query from the Chair, it was clarified that the IMO or System Management would be able to obtain pre-approval for expenditure, similar to that provided through New Facilities Investment Test (NFIT) decisions. Mr Dykstra noted that regardless of where the threshold was set, there would always be situations where the proposed expenditure fell under the threshold, and that the proposal would give the IMO and System Management the ability to gain approval for this expenditure early.</p> <p>Mr Huxtable queried whether there would be a minimum level of expenditure applicable to these requests. Mr Brown responded that while there was not a fixed minimum the ERA has reserved the right not to make a determination in these situations. Mr Forward considered that as the IMO and System Management would be unlikely to make a submission lightly it could be reasonable for the ERA to be obliged to make a determination.</p> <p>Mr Peter Mattner noted that the NFIT has a threshold, above which the ERA must make a determination and below which the ERA may make a determination. Mr Mattner noted that a determination was defined as a decision to approve or not approve a proposal, which could result in uncertainty where a proposal was not approved but where a proposal for a lesser amount may have been approved. After some discussion it was clarified that the ERA would still be required to make a determination on proposals over the 10 percent threshold.</p> <p>Mr Ken Brown questioned what would have happened if the ERA had rejected the IMO's proposed expenditure for the MEP. The Chair replied that if this had eventuated then the IMO would have notified the Minister and stopped the project.</p> <p>Mr Pablo Campillos queried whether the 10 percent threshold might prove restrictive for the IMO and System Management in future.</p> <p>Mr Mattner queried whether any time limit had been set for the ERA's determinations, considering that it could pose a risk to the IMO if no time limit existed. Mr MacLean noted that there was also an ERA resourcing issue to be considered. The Chair considered that there could be a problem if the market wants the IMO to progress a project quickly but the ERA was to take 3-6 months or more to make a determination. Mr Chris Brown replied that the ERA would look into this issue. Mr MacLean noted that situations might arise where both the IMO and System Management were making multiple submissions at the same time.</p>	
6a	<p><b>MARKET PROCEDURE CHANGE OVERVIEW</b></p> <p>Mr Dykstra queried comments made by the IMO about the Prudential Requirements Procedure Change Proposal in the overview of recent and upcoming procedure changes distributed for the meeting. The Chair</p>	

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	<p>noted that there were issues relating to the current rules around to Prudential Requirements and the IMO was undertaking a detailed process review with a view to making further changes to the Market Rules.</p> <p>Mr Dykstra noted the comments made by Alinta in its submission on the Rule Change Proposal: Acceptable Credit Criteria (RC_2010_36), around the potential exposure of Market Participants to Civil Penalties if the IMO removes a credit provider from the Acceptable Credit Criteria list without prior notice. Mr Dykstra noted that if the Rule Change Proposal: Reserve Capacity Security (RC_2010_12) progresses then Market Participants could be required to find an alternative credit support source for both Credit Support and Reserve Capacity Security (RCS) within one business day, or else face Civil Penalties. Mr Dykstra considered that it could be particularly difficult for a Market Participant to replace RCS in this timeframe if its Facilities are not currently generating any cash flow.</p> <p>Mr Forward replied that the IMO needed to balance these difficulties against the risk of leaving the market exposed. The Chair noted that in the past the IMO had usually provided more than the official 24 hours notice of impending changes to participants' credit support requirements.</p> <p>The IMO noted the overview of recent and upcoming procedure changes.</p>	
<b>7a</b>	<p><b>WORKING GROUP OVERVIEW</b></p> <p>The MAC noted the Working Group overview.</p>	
<b>7b</b>	<p><b>MRCPWG UPDATE</b></p> <p>In response to a query from Mr Dykstra, it was confirmed that the date of the next MRCPWG meeting was 24 March 2011, not 24 February 2011 as listed in the overview document.</p> <p>The MAC noted the MRCPWG update.</p>	
<b>7c</b>	<p><b>RDIWG UPDATE</b></p> <p>Mr Forward repeated his offer from previous meetings to provide a one on one progress update on the work of the RDIWG to any member on request.</p> <p>The MAC noted the RDIWG update.</p>	
<b>8</b>	<p><b>MAC ANNUAL REVIEW WASH UP</b></p> <p>The Chair noted that an overview paper and the 2011 MAC Composition Review Report had been distributed to MAC members with the papers for this meeting. The Chair considered that the record of attendance for MAC meetings in the previous year had been exemplary.</p>	
<b>9</b>	<p><b>GENERAL BUSINESS</b></p> <p><i>RCM Review</i></p>	

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	<p>Mr Forward noted that the IMO had appointed The Lantau Group to conduct the RCM Review. The Lantau Group was in the process of contacting participants to arrange meetings with them, having decided to take the approach of talking with participants on a one on one basis to encourage more open discussion. Mr Forward considered that these discussions would provide participants with an opportunity to contribute to the RCM Review, and urged MAC members to raise any issues that they had with the RCM in these meetings. The Chair confirmed that the IMO wanted to hear the views and concerns of industry so that they could be incorporated into the report to the IMO Board.</p> <p><b><i>Varanus Island Issue - Workshop</i></b></p> <p>There was some discussion about the proposed briefing on the recent Varanus Island events and their impact on the WEM. Mr MacLean noted that Mr Jim Brosnan from Simcoa had some views to contribute to this briefing.</p> <p>Mr Cremin raised his concerns about the structure of Spinning Reserve costs, noting that he had discussed the issue with Mr Phil Kelloway. Mr Cremin stated that during the recent Varanus Island incident there were periods during which Griffin Energy was instructed to increase its output as much as possible. Griffin Energy had complied with these requests, but as a result had incurred very large Spinning Reserve charges through having the only large units operating in some Trading Intervals. Mr Cremin suggested that perhaps some simple changes could be applied to address this problem.</p> <p>The Chair suggested that after the RDIWG had reached agreement on the design principles for balancing the IMO could start collecting some data on this issue, perhaps targeting a May/June 2011 timeframe. Mr Ken Brown noted that if System Management asks a Facility to generate beyond its normal limits then there is an inherent risk that this could force the Facility to trip and there was a need to consider the associated financial penalties.</p> <p>Mr Zammit considered that it was a good time to conduct a review as recent events have provided some useful data for analysis. The Chair agreed that there was a great deal to be learned by studying exceptions to normal operations. Mr Cremin agreed that the Varanus Island incident was a good example of a rare event, but was concerned more generally about the unpredictable financial impacts of Ancillary Service costs on those facilities that normally bear the largest share of them.</p> <p>The Chair considered that there was a need to provide better information to Market Participants so that they could better understand the impact of their actions. There was some discussion about whether it was appropriate to penalise participants for actions that they could not change.</p> <p>Mr Ken Brown considered that the Varanus Island incident showed that the WEM was a fuel dominated market, noting that that System Management had had to shift from the Dispatch Merit Order due to the</p>	

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	<p>emergency. There was further discussion about the flow of information during the incident and the dependency of the WEM on the Dampier to Bunbury Natural Gas Pipeline (DBNGP).</p> <p>Mr Biggs noted that the Office of Energy would be undertaking a wash up of the event by early April, and so any market feedback would be useful to have. Mr Biggs noted the incident was successfully managed through the market.</p> <p>Mr Ken Brown considered that Demand Side Management appeared to have worked well during the Varanus Island incident and noted that Simcoa had been called several times. The Chair reiterated his view that a workshop on the incident will be a very useful exercise.</p> <p><b>MAC Minutes</b></p> <p>Mr Dykstra noted that the draft minutes of MAC meetings were included in the papers distributed to MAC members before each meeting and also published on the IMO's website. Mr Dykstra considered that as these were draft minutes they should only be privately distributed to MAC members, and that MAC minutes should not be published on the website until they were final. The Chair replied that this would result in market stakeholders not seeing the minutes until they had been finalised, and that market stakeholders may need to reference these documents earlier, for example when preparing submissions for Rule Change Proposals.</p> <p>Mr Dykstra suggested that alternatively the draft minutes could be distributed to MAC members earlier for review. The Chair considered that it might be possible for the IMO to distribute the draft minutes to MAC members within a week of a meeting, so that MAC members could provide their comments within the following week, prior to the publication of the final minutes on the IMO website.</p> <p><b>Rule Change Process</b></p> <p>Mr Dykstra noted that he had made his views on the rule change process known on several occasions as he considers that this process needs to be examined. Mr Dykstra asked if any other MAC members shared his concerns.</p> <p>Mr Ken Brown questioned whether Mr Dykstra's concerns related to the level of detail in Rule Change Proposals. Mr Dykstra replied that he was concerned about the burden of proof that a proposal was consistent with or bettered the Wholesale Market Objectives, and also about the robustness of the processes the IMO adopts before proceeding to the formal consultation process.</p> <p>Mr MacLean questioned whether these concerns included Pre Rule Change Discussion Papers (PRCs). Mr Dykstra responded that he considered PRCs should be used to for the discussion of conceptual issues, and that the MAC was not intended to be a checker of the detail of the Amending Rules. Mr Dykstra stated that he felt quite passionately about the issue.</p>	

Item	Subject	Action
	<p>The Chair suggested that Mr Dykstra should meet with him personally to discuss his concerns.</p> <p>Mr Cremin stated that he partially agreed with Mr Dykstra's concerns. Mr Cremin considered that MAC members can get "bogged down" in the MAC forum, although there had been good discussion at today's meeting. Mr Cremin noted that he found it difficult to go through the level of detail in the papers, but was not sure what should be done to address the problem.</p> <p>Mr Zammit noted that in other markets he deals with (such as the NEM) there is no body comparable to the MAC. Mr Zammit considered that the WEM was fortunate to have such a structure in place. Mr Dykstra queried the volume of rule changes in the other markets. Mr Zammit replied that in the NEM in particular he saw very few rule changes and that it was very difficult to progress a rule change in the NEM.</p> <p>Mr Dykstra considered that the NEM was not closed to applications for rule changes but that fewer rule changes were progressed because a higher burden of proof was demanded. Mr Dykstra considered that a larger number of rule changes were being seen in the WEM. Mr Zammit replied that the WEM was a younger market and so a greater number of rule changes could be expected. Mr Zammit considered that further evolution was needed in the NEM but was not happening.</p> <p>The Chair considered that the initial Market Rules were deficient, and the market is living with the consequences of this. The Chair considered that sometimes the deficiencies within the Rules were such that it was difficult for the IMO and System Management to determine how to comply with the Rules.</p> <p>The Chair reiterated that the IMO understood the burden imposed on MAC members, and noted the proposed technical review of the settlement equations for PRC_2010_27 was occurring to reduce this. The Chair also noted that the cost/benefit analysis due to be presented to the RDIWG next week had been prepared at a very detailed level.</p> <p>Mr MacLean queried at what time the following day the cost/benefit analysis would be distributed to RDIWG members. The Chair advised that the document would be distributed to RDIWG members before 11.00 am the next day.</p> <p><i>Action Point: The IMO to distribute the cost/benefit analysis for the Market Evolution Program balancing proposal to RDIWG members before 11.00 am on 10 March 2011.</i></p>	IMO
12	<p><b>NEXT MEETING</b></p> <p>Meeting No. 37 will be held on Wednesday 13 April 2011.</p>	
<p><b>CLOSED:</b> The Chair declared the meeting closed at 5.08 pm.</p>		