Independent Market Operator

Market Advisory Committee

Minutes

Meeting No.	37
Location	IMO Board Room Level 3, Governor Stirling Tower, 197 St Georges Terrace, Perth
Date	Wednesday 13 April 2011
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	(2.00–3.10pm)
Steve Gould	Discretionary – Customer	
Corey Dykstra	Discretionary – Customer	
Matt Schultz	Discretionary – Customer	Proxy
Peter Huxtable	Discretionary – Contestable Customer Representative	
Andrew Sutherland	Discretionary – Generator	
Shane Cremin	Discretionary – Generator	
Ben Tan	Discretionary – Generator	
Chris Brown	Observer – ERA	Proxy
Paul Biggs	Small Use Customer Representative	
Apologies	**Class**	**Comment**
Michael Zammit	Discretionary – Customer	
Wana Yang	Observer – ERA	
Nerea Ugarte	Minister's appointee	
Also in attendance	**From**	**Comment**
Jenny Laidlaw	IMO	Minutes
Douglas Birnie	Sapere Research Group	Presenter
Kieran Murray	Sapere Research Group	Presenter
Cameron Perrotte	System Management	Observer
Jacinda Papps	IMO	Observer
Fiona Edmonds	IMO	Observer
Courtney Roberts	IMO	Observer
Alasdair Macdonald	IMO	Observer
Ben Williams	IMO	Observer (2.40-4.40pm)

Item	Subject	Action
1.	**WELCOME** The Chair opened the meeting at 2.00 pm and welcomed members to the 37th meeting of the Market Advisory Committee (MAC). The Chair introduced Mr Alasdair Macdonald, who will be replacing Mrs Jacinda Papps in Market Development while she is on maternity leave. The Chair advised MAC members that Mr Troy Forward had tendered his resignation and would be leaving the IMO within the next few months to take on a new role with a Market Participant. The Chair noted that in order to protect commercial sensitivities Mr Forward's responsibilities were now confined to the Market Evolution Program (MEP) and some rule change work. Specifically, Mr Forward would have no further involvement in any System Capacity issues. The Chair preferred that Mr Forward attend the next few RDIWG and MAC meetings, but suggested that members contact him personally if they had any concerns about this arrangement.	
2.	**MEETING APOLOGIES / ATTENDANCE** Apologies were received from: • Michael Zammit • Wana Yang • Nerea Ugarte The following other attendees were noted: • Matt Schultz (Proxy for Michael Zammit) • Chris Brown (Proxy for Wana Yang) • Douglas Birnie (Presenter) • Kieran Murray (Presenter) • Cameron Perrotte (Observer) • Jacinda Papps (Observer) • Fiona Edmonds (Observer) • Courtney Roberts (Observer) • Alasdair Macdonald (Observer) • Ben Williams (Observer)	
3.	**MINUTES OF PREVIOUS MEETING** The minutes of MAC Meeting No. 36, held on 9 March 2011, were circulated prior to the meeting. The following amendments were agreed. ***Page 5: Section 4: Actions Arising (Action Point 14)*** • "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), ~~providing~~ as it would provide a good example of what worked and what did not work. Mr Dykstra noted …" ***Page 7: Section 5b: Ancillary Services Payment Equations [PRC_2010_27]***	

<table>
<tr><th>Item</th><th>Subject</th><th>Action</th></tr>
<tr><td></td><td>

- "... Mr Dykstra stated that the Minister had ~~not~~ provided guidance but he would expect Synergy ~~will want~~ would be expected to obtain its RECs locally.

  ...

  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 ~~indirectly~~ ultimately borne by Loads."

Page 8: Section 5b: Ancillary Services Payment Equations [PRC_2010_27]

- "… 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 ~~concepts~~ models were working."

Page 13: Section 9: General Business (Varanus Island Issue – Workshop)

- "… Mr Cremin agreed that the Varanus Island incident was a good example of a rare event, but was concerned more generally about the ~~severe~~ unpredictable financial impacts of Ancillary Service costs on ~~Griffin Energy's Facilities~~those facilities that normally bear the largest share of them."

Page 14: Section 9: General Business (Rule Change Process)

- "… Mr Dykstra stated that he felt quite passionately about the issue."

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. 36 to reflect the points raised by the MAC and publish on the website as final.

Mr Stephen MacLean queried whether any conclusions had been reached by the MAC in its discussion on the Pre Rule Change Proposal: Ancillary Services Payment Equations (PRC_2010_27) at the previous meeting. The Chair responded that no conclusions on the proposal had been reached during the meeting. However, the IMO had taken into consideration the advice offered during the meeting about the impacts on availability cost determination of the current Market Evolution Program (MEP) work on competitive Load Following Ancillary Services (LFAS). The IMO proposes to wait on the development of the MEP detailed design for LFAS before taking any further action on the cost calculation aspects of PRC_2010_27. The IMO will now focus on the cost allocation aspects of the proposal.

</td><td>

IMO

</td></tr>
</table>

Item	Subject	Action
	Mr Andrew Everett questioned whether there had been general consensus on this approach, noting that while one member had suggested delaying the cost calculation components of the proposal he (Mr Everett) had suggested that PRC_2010_27 be formally submitted into the rule change process. Mr Forward responded that while a number of different opinions had been expressed during the discussion there had been no conclusions reached or any consensus on the advice offered to the IMO. The Chair noted that the IMO intended to present either a Pre Rule Change Discussion Paper or a Rule Change Proposal in the near future. Mr Corey Dykstra recommended that if the revised proposal contained changes from the original concept paper then it would be worth presenting an updated Pre Rule Change Discussion Paper to the MAC, to help ensure that the updated proposal was workable.	
4.	**ACTIONS ARISING** Most actions arising were either complete or on the meeting agenda. The following exceptions were noted: • **Item 14:** Mr Forward noted that the IMO held a public workshop to discuss the two Relevant Demand methodologies on Friday 8 April 2011. The IMO will take the discussion held during the workshop into consideration when preparing the Draft Rule Change Report for the Rule Change Proposal: Curtailable Loads and Demand Side Programmes (RC_2010_29). The Chair expressed his thanks to the workshop attendees for their input.	
5a	**MARKET RULE CHANGE OVERVIEW** The MAC noted the Market Rule Change Overview.	
6a	**MARKET PROCEDURE CHANGE OVERVIEW** The MAC noted the overview of recent and upcoming procedure changes.	
7a	**WORKING GROUP OVERVIEW** The MAC noted the Working Group overview. Mr Forward noted that Mr Allan Dawson had agreed to replace him as the Chair of the Maximum Reserve Capacity Price Working Group (MRCPWG), as Mr Forward considered that it was no longer appropriate for him to continue in this role. Mr Forward considered that the procedural work of the MRCPWG was largely complete, although some issues were still being worked through. The MAC agreed to the proposed change of MRPCWG Chair. *Action Point: The IMO to update the IMO website to reflect the change to the Chair of the MRCPWG.*	**IMO**

Item	Subject	Action
7b	**MRCPWG UPDATE** Mr Peter Mattner queried whether there would be an economic evaluation of any proposed changes to the calculation of the MRCP resulting from the Working Group's determinations, to illustrate the application of the changes and to confirm that the working group had arrived at an economically sound place. Mr Mattner considered that the changes may have raised some transitional issues, with some participants benefitting and others being disadvantaged, and questioned whether the MRCPWG would be looking at these issues. Mr Forward noted that the initial work of the MRCPWG was to confirm the methodology for MRCP determination and that this work was largely completed. Mr Forward agreed that further work of a more structural nature may need to be done, but considered that the current tasks assigned to the MRCPWG should be completed and reported back to the MAC first (as was originally agreed by the Working Group). If the MAC then considered that further work was required then it could direct the MRCPWG accordingly. The Chair noted that the current review of the Reserve Capacity Mechanism (RCM) was likely to generate additional work for the MRCPWG. In its discussions with industry representatives the Lantau Group had identified a number of issues, including issues around price escalation and whether consideration of a 160 MW Open Cycle Gas Turbine (OCGT) generator was still an appropriate theoretical basis for MRCP determination. The Chair expected that some of these issues were likely to come back to the working group via the MAC. Mr Dykstra suggested that the questions around the use of a 160 MW OCGT have already been considered and that the outstanding issues were more about the different uses of the MRCP in the market. Mr Dykstra noted that it had been agreed that these issues were not in the scope of the MRCPWG at present. Mr Dykstra noted that the MRCPWG update paper included a recommendation for the IMO to submit an updated draft Market Procedure into the Procedure Change Process. Mr Dykstra asked whether the IMO wished to discuss this recommendation. Mr Forward suggested that the recommendation should be held over until a review of the wording of the updated draft Market Procedure was completed. Mr Dykstra supported this suggestion. The MAC noted the MRCPWG update.	
8	**MEP: RESERVE CAPACITY REFUNDS (UPDATE)** Mr Forward noted that the Rules Development Implementation Working Group (RDIWG) discussed a variety of issues around Reserve Capacity Refunds at its 5 April 2011 meeting and agreed that more work needed to be undertaken. The RDIWG had agreed that a high level principles paper on the issues around Reserve Capacity Refunds should be prepared, and that the working group should then conduct a workshop to discuss these principles. Working group members had acknowledged that this	

Item	Subject	Action
	action is likely to prevent the implementation of a solution before next summer. The Chair noted that the RDIWG had concluded that there was a need to go back to first principles with regard to Reserve Capacity Refunds. The MAC noted the update on the MEP work on Reserve Capacity Refunds.	
9	**MEP: BALANCING AND LOAD FOLLOWING ANCILLARY SERVICES MARKETS** The Chair asked Mr Forward to give MAC members an overview of the MEP proposal for competitive balancing and LFAS. Mr MacLean queried the wording used to describe the views of Mr John Rhodes on the proposal in section 12 of the Balancing and LFAS Recommendation Paper (Recommendation Paper) on page 40 of the combined papers for the meeting. Mr MacLean submitted that the wording was incorrect and should be "Support sending it to the MAC on the basis that the RDIWG could not progress any further without MAC involvement and approval". There was general agreement with Mr MacLean's correction. *Action Point: The IMO to ensure that the minutes of the 5 April 2011 RDIWG meeting report the views of Mr John Rhodes on the Balancing and LFAS proposal as "Support sending it to the MAC on the basis that the RDIWG could not progress any further without MAC involvement and approval".* Mr Forward provided a high level overview of the events leading up to the formation of the MEP and RDIWG in August 2010. Mr Forward noted that since that time the RDIWG has assessed a number of options to implement real competition in balancing and LFAS while retaining the current hybrid design of the market. The outcome was the design framework described in the "12 boxes" design paper (included in the combined papers for this meeting as Appendix 3 to the Recommendation Paper). Mr Forward noted that other "simpler" design options had been suggested by Griffin Energy and System Management, but had been rejected as they were unlikely to be able to achieve the required outcomes. At the last RDIWG meeting a majority of members had agreed to the option that was being presented to the MAC today. Mr Forward assumed that MAC members were all now familiar with the proposed design, and so proposed not to discuss the details unless members had specific questions. The Chair noted that one component of the proposal before the MAC was to limit the design to the bounds set in the Recommendation Paper for future work. The Chair introduced Mr Kieran Murray from Sapere Research Group to MAC members. Sapere (formerly known as LECG) was commissioned by the IMO to undertake a high level Cost Benefit Analysis (CBA) of the	**IMO**

Item	Subject	Action
	balancing and LFAS proposal. A draft of the CBA was presented to the 15 March 2011 meeting of the RDIWG. Since that time Sapere has updated the CBA to reflect additional information provided by System Management and Market Participants. The final version of the CBA was included in the papers for today's meeting. Mr Murray gave a presentation to the MAC outlining the work undertaken by Sapere for the IMO, the final results of the CBA and the changes made since the draft CBA was presented to RDIWG members. A copy of the presentation is attached as Appendix 1. Mr Murray noted that there was inevitably some uncertainty in a CBA of this nature. To minimise this uncertainty, Sapere had tried to work off existing market data. Further, the CBA considered real economic impacts only, ignoring price effects and wealth transfers. Since the draft report was presented to the RDIWG on 15 March 2011, the CBA has benefitted from feedback and additional information provided by RDIWG members and other industry stakeholders. In particular, Sapere has held several meetings with System Management and received extensive detailed comments from Verve Energy. Mr Murray noted that the CBA had quantified four key benefits over a six year period: • providing Independent Power Producers (IPPs) with an ability to clear their existing unused STEM offers through the balancing market; • changes to bidding behaviour resulting from compressed timeframes that allow participants to rebid based on new information, increasing the capacity made available at dispatchable prices; • earlier return of capacity from outage; and • a reduction in the number of curtailments of base load generation. The CBA also quantified the full costs of implementation over a seven year period, including personnel and system costs for the IMO, System Management and Market Participants. Mr Murray noted that there were three main changes from the previous draft of the CBA. Firstly, there was an $8.0 million increase in the benefit of changed IPP bids. This was partly due to a change in the database used for the analysis; previously Sapere had been using a database that was not including Intermittent Generator impacts. A change from the use of three estimation methodologies in the draft report to a single method, which involves estimating the surplus available if the MCAP curve trends towards the STEM price curve, also contributed to the benefit increase. Based on discussions with stakeholders, Sapere assumed that participation could vary from 60% (low case) to 100% (high case). Comments were received from IPPs that they intended to participate to a level greater than the 60% assumed for the low case. Mr Murray noted that the second main change was a reduction of $4.2	

Item	Subject	Action
	million in the benefit of earlier return of capacity from outages. As noted by System Management, the draft report had overestimated the amount of high cost peaker capacity that would be used as soon as it came back from outage. Sapere had adjusted the assumption which resulted in a reduction to the estimated benefit. Mr Murray explained that the third main change was an increase of $9.3 million in the benefit of avoiding baseload curtailments, based on an increase in the estimated number of avoided curtailments from 5 to 45. Mr Murray noted that discussions with System Management around the impact of the Collgar wind farm suggested that the revised estimate may still be too low, but Sapere had chosen to adopt a cautious approach. Mr Murray noted that the overall result of the changes was a net increase in expected benefits. Mr Murray also discussed the qualitative benefits expected from the proposal, including: • improved investment incentives; • increased levels of confidence in the wider market; and • lower transition costs in the future. The Chair noted that in a letter sent to MAC members on 12 April 2011 Mr Ken Brown had noted that System Management had some concerns about the CBA. A copy of Mr Brown's letter is attached as Appendix 2. The Chair invited Mr Brown to explain his concerns to MAC members. Mr Brown noted that System Management had held several talks with Mr Murray on the CBA. Mr Murray had agreed with System Management's comments about the usage of high cost peakers returning from outage. Mr Brown acknowledged that the additional costs of doing nothing would continue to rise and so was keen to see the introduction of some form of competitive balancing. Mr Brown submitted that he was reasonably comfortable with the second and third changes to benefits mentioned by Mr Murray, but was mainly concerned about the $8.0 million increase in the benefit of changed IPP bids. Mr Brown considered that this value may include some double counting and questioned the assumption that all IPPs STEM and balancing prices will converge. System Management was also concerned about the magnitude of the variation between the draft and final reports. System Management needed to discuss these concerns further with Sapere. Mr Brown considered that he had not had a great deal of time to review the final report and so was concerned about giving it his approval. The Chair noted that although there had been a late delivery of some data, there were already indications by the time the draft report was presented of a likely significant increase to net benefits, and this information had been communicated to RDIWG members at the 15 March 2011 meeting. Mr Brown responded that the increases were significantly greater than he had expected. Mr MacLean questioned whether the overall result of the CBA would	

Item	Subject	Action
	change if the items about which Mr Brown was concerned were excluded. There was some discussion about whether this would be the case. Mr Murray noted that if there had been no change to the benefit of changed IPP bids in the final CBA but only changes to the other benefits then the final CBA would still have shown an increased net benefit relative to the draft report. Mr Murray disagreed with Mr Brown's suggestion that there was a double counting issue with the CBA. Mr Murray noted that was no change to the assessment of the benefits of providing IPPs with an ability to clear their existing unused STEM offers. For the assessment of the impact of compressed timeframes on IPP offers, Mr Murray noted that Sapere had replaced the three methods used for the draft report with the one method considered to be the most robust. Mr Murray considered that the main cause of the change was the different data series used for the final CBA, as the original data series did not account for Intermittent Generators. Mr Murray offered to take Mr Brown through the details of the changes. Mr Murray reiterated that Sapere has assumed an IPP participation level of 60% for the low case and 100% for the high case. The 60% assumption was considered to be conservative as more than 60% of IPPs had indicated their intention to participate. This estimate was also supported by the experience in other markets where participation has been allowed. In response to a question from Mr Dykstra, Mr Murray confirmed that the 60% was a measure of capacity. One IPP was less confident of how it would respond to the proposal. Mr Brown noted the concerns raised by the internal expert who had reviewed the CBA for System Management. The Chair offered to make Mr Murray available to Mr Brown to work through System Management's concerns. Mr Brown responded that this could not occur until after this MAC meeting and System Management will require a good CBA to support its funding submission. The Chair noted that he was keen to present the CBA to the ERA in May 2011 and was already working with the ERA. Dr Paul Biggs considered that the estimated benefit represented only a few cents per small use customer. Dr Biggs questioned whether the proposal was the best investment for the IMO and whether this would depend on the qualitative benefits. The Chair reminded Dr Biggs of the various drivers that had led to the development of the balancing and LFAS proposal. Dr Biggs asked MAC members whether they thought that the benefits may have been underestimated, considering them to be small compared with the overall size of the market. Mr Shane Cremin replied that it was more appropriate to compare the benefits to the cost of balancing (around $35 million annually). Mr Dykstra considered that it was necessary to consider the economic costs, noting that an economically efficient outcome may not be cheaper. Mr Dykstra submitted that the RDIWG had considered a range of issues and in some cases had concluded that no action was required, for example around the alignment of gas and electricity timelines. Mr Dykstra considered that while the balancing proposal had benefits there was a	

Item	Subject	Action
	need to consider the implementation risks. Alinta had concerns about these risks and considered that these concerns might also be shared by System Management and Verve Energy. Mr Dykstra submitted that better information became available all the time, and that just because an issue was once a priority did not mean that the market should automatically proceed with a solution. The Chair responded that balancing had been clearly established as the highest priority issue and he had not heard anything to indicate that this was no longer the case. Mr Dykstra agreed, but questioned whether the balancing proposal was the best solution going forward. Mr Brown again acknowledged the balancing problem and the need to bring other participants into the balancing market, but questioned the impact of the proposed late gate closures and suggested that the biggest problems in future would relate to the amount of wind and Demand Side Management in the system. Mr Cremin agreed that the proposal was complex but supported the need for action, noting the impact of the recent Varanus Island incident on Ancillary Services costs. Mr Andrew Sutherland considered that currently IPPs that could be contributing to balancing do not receive the necessary price signals. Mr Brown agreed that there was a need to fix this problem, but questioned whether the proposal represented a very expensive way of doing this. Mr Everett agreed with Mr Brown that the proposal was complex and considered that the main source of this complexity was the inclusion of LFAS. Mr Everett considered that LFAS should not be a core element of the proposal and that when the RDIWG explored the full details it might want to exclude LFAS. For example, it was not clear how Verve Energy would be able to provide two supply curves, one for balancing and one for LFAS, or how availability payments would be determined under the proposal. There was some discussion about the magnitude of these issues. Mr Everett considered that overlaying LFAS on the balancing proposal would overly complicate it, and he would not want to see the balancing proposal delayed by LFAS issues. The Chair responded that if competitive balancing was implemented first it could prove to be very expensive to add LFAS later. Mr Douglas Birnie confirmed that from an IT viewpoint it would be much cheaper to implement both markets together. The Chair offered to make Mr Jim Truesdale available to Mr Everett to work through his concerns about the LFAS component of the proposal. Mr Everett responded that he had spoken to Mr Truesdale, who was currently considering Mr Everett's issues. Mr Forward considered that any change to the IT systems will cost money and that a small implementation delay to accommodate LFAS would still be more efficient then implementing the two components separately. Mr MacLean queried whether Mr Everett's concern was that he considered balancing the central issue and LFAS supplementary, or that he considered LFAS too complex and therefore likely to delay the balancing component. Mr Brown submitted that it could be assumed that	

Item	Subject	Action
	balancing provided the bulk of the benefits. Mr Dykstra questioned whether the proposal would change the price that Verve Energy receives for the LFAS it provides, making it cost reflective. Mr Everett considered that from Verve Energy's viewpoint balancing was the main issue. Mr Forward thought that Mr Truesdale was confident that the LFAS questions could be resolved. Mr Birnie suggested that the balancing component might be trialled first but considered that from a rule design viewpoint it made sense to consider the two components together. Mr Brown replied that he expected greater benefits from the balancing component than from the LFAS component. There was some discussion about the potential abilities of different facilities to provide LFAS over the next few years. Mr Brown noted that in his letter to MAC members he had submitted that the proposal was still at a reasonably high level, and that there was a need for System Management to make sure that it was happy with the detail. Mr Brown considered that System Management would not be ready to start market trials by 1 December 2011, due to the system complexity required to provide the required flexibility. Mr MacLean noted that he had thought the decision today was to take the overview and start creating the detail, i.e. whether to proceed with the proposal. Mr Sutherland queried whether there would be another break point in the process where the MAC would again consider whether to proceed with the proposal. The Chair responded that if the proposal was endorsed by the MAC then the next step would be to come back to the MAC with a detailed process map. Mr Dykstra also asked if there would be another break point in the process, considering that there was a need for checks to ensure that the market was on the right path. Mr Birnie responded that there needed to be a point of commitment from concept to implementation. Either now or within the next few weeks there was a need for this decision to be made. Mr Dykstra suggested that if the work proceeded the detailed design might still uncover issues that made implementation difficult. Mr Birnie agreed that checkpoints and veto points were needed, noting that the next veto point was effectively in the rule change process. The Chair considered that he had not heard anything to suggest that there were issues with the proposal that could not be resolved during the detailed design phase. The Chair reminded the MAC of the drivers for the proposal and the need for action, noting that the options had been considered for the best part of a year. There was some discussion about how long Verve Energy could continue as the sole provider of LFAS and whether the LFAS component should be allowed to delay the implementation of the balancing component. Mr Forward suggested that while the components should remain linked for now consideration could be given to delaying or removing the LFAS component of the proposal if insurmountable problems were encountered during the detailed design.	

Item	Subject	Action
	In response to a question from Mr Everett the Chair explained that the proposed market trial would be a simulation only, involving no physical plant dispatch. Mr Brown reiterated that System Management's systems might not be available until after 1 December 2011 and will require extensive testing, which might affect the proposed April 2012 start date. Mr Birnie submitted that there would be little benefit in undertaking further work on refining the CBA. Mr Brown disagreed and considered that he was keen to discuss the CBA further with Mr Murray. There was some more discussion about the CBA and the significance of the changes between the draft and the final reports. The Chair noted the issues raised by System Management around the CBA and Verve Energy around the LFAS component of the proposal. The Chair asked individual MAC members to provide their views on the proposal. Mr Dykstra considered that the proposal appeared to be the best option available to increase participation in balancing within the constraint of the current market design. Mr Dykstra agreed with Mr Brown that balancing will be an issue in the WEM, perhaps not this year but eventually. However, Mr Dykstra did not support the proposal, considering that the net benefits indicated in the Cost Benefit Assessment (CBA) were low and may not outweigh the time, effort and risks involved. Mr Everett was supportive of the move to competitive balancing and the direction of the proposed design, but noted that that he was proceeding in good faith with regards to the detail, for example around timing and rebidding. Mr Everett noted that he had elaborated his concerns over the inclusion of Load Following Ancillary Services (LFAS) in the core proposal, considering that LFAS issues should not be allowed to put the balancing component of the proposal at risk. Mr Ben Tan considered that as long as the MAC is able to revisit the decision at key points he could see no reason why not to proceed with the proposal. Dr Steve Gould agreed with Mr Brown's requirement to better understand the CBA, but expected that the CBA numbers would not be difficult to substantiate. Subject to this substantiation, Dr Gould strongly supported the proposal. Dr Gould expected that the qualitative benefits of the proposal will be substantial and greatly exceed the quantitative benefits outlined in the CBA. Dr Gould also considered the CBA to be conservative in that the benefits were likely to accrue for a period greater than the six years considered in the assessment. Mr Chris Brown noted that the ERA was strongly supportive of processes which increased competition. However the ERA, given its position in the market, reserved the right to comment on the outcomes in due course. Dr Biggs noted the benefits of the proposal in allowing more Market Participants to participate in balancing. However, Dr Biggs expressed some concerns about the CBA, stating that he was not sure that the net	

Item	Subject	Action
	benefits would be sufficient. Mr Ken Brown noted System Management's support for efforts to increase participation in balancing, but suggested that the proposal was more complex than necessary and that there may be simpler models which achieve the desired results. Mr Brown expressed particular concern over the complexities introduced by the proposed rebidding arrangements. Mr Brown noted that he was concerned about agreeing to proceed with the proposal at this time and wanted to see another decision point in the next few weeks incorporated into the process, once the details of the proposal have been further investigated. Mr Cremin agreed with some of the concerns raised by Mr Dykstra and Mr Brown, but considered that given the current political realities he could not see any other feasible way of proceeding. Mr Cremin supported the proposal as it represented the best option available to the market at present. Mr Peter Huxtable noted the pathway decision to pursue the hybrid market model and the significant amount of work that had gone into the development of the proposal. Mr Huxtable supported proceeding with the proposal, provided that appropriate check points are incorporated into the process to address any significant issues potentially arising in the detailed design phase, for example around LFAS. Mr Sutherland supported the proposal. Mr Sutherland considered that doing nothing was not an acceptable option and noted that several simpler models had been considered by the RDIWG but rejected as unable to achieve the required outcomes. Mr MacLean considered that the market has to take some action as Verve Energy will not be able to continue in its current role indefinitely. Mr MacLean considered that the market needed to proceed with the proposal and take it to the next stage. Mr Matt Schultz (as proxy for Mr Michael Zammit) supported the proposal, considering that it represented the most palatable way to move forward with the implementation of competitive balancing. The MAC discussed the proposed recommendations contained in section 12 of the Recommendation Paper. While there was not unanimous support for the creation of the proposed new balancing and LFAS markets, MAC members nevertheless agreed that the IMO should proceed to recommend to the IMO Board that it approve these markets being created in accordance with the principles and concepts set out in sections 3, 4 and 5 of the Balancing and LFAS Recommendation Paper included in the papers for MAC Meeting No. 37 (Recommendation Paper). The MAC: **a)** **Noted** the RDIWG's Terms of Reference as set out in Appendix 1 of	

Item	Subject	Action
	the Recommendation Paper and the previous MAC and RDIWG decisions set out in Appendix 2; **b) Noted** the balancing and LFAS proposal as it now stands – in terms of key components or principles as set out in sections 3, 4 and 5 of the Recommendation Paper – and the fuller description of the proposal as set out in Appendix 3; **c) Noted** the proposal: i. appears consistent with the RDIWG's Terms of Reference and the Wholesale Market Objectives; ii. appears to be the most effective option thus far identified that will enable IPPs to participate effectively in balancing but in a way that is still consistent with the current hybrid design; iii. appears technically feasible with no obvious outstanding "core concept" questions that remain to be answered, with the detail to be resolved during preparation of the draft rules; iv. provides net benefits according to the CBA; v. has been developed within the IMO – MEP budget, noting the budget implications for any delays experienced in delivering the programme; **d) Noted** that existing mechanisms for mitigating potential market power would continue to apply to the new proposal and the IMO Board has asked for an independent assessment of market power issues should the decision be made to proceed with the proposal; **e) Noted** that the fuller Balancing and LFAS design proposal paper provided as Appendix 3 of the Recommendation Paper will be used as the basis for initial rule changes and system and operational development in implementing the new balancing and load following ancillary service markets; **f) Noted** that the Balancing and LFAS components of the design will be developed together in the first instance, consistent with the design proposed in Appendix 3 of the Recommendation Paper. However, if unforeseen issues arise in the detailed design of the LFAS component of the proposal that would put at risk the delivery, or materially delay the implementation, of the balancing component then consideration will be given to delaying the implementation of the LFAS component; **g) Noted** that the ability to make significant changes to the proposal beyond this decision point will be more limited given the system design and cost implications but it will be possible to amend detailed aspects of the proposal during this rule consultation phase – as long as the changes do not revisit core aspects of the design; **h) Recommended** to the IMO Board that any amendments to the design as set out in Appendix 3 of the Recommendation Paper should be	

Item	Subject	Action
	consistent with the principles and concepts set out on sections 3, 4 and 5 of the Recommendation Paper and assessed according to their cost and related system development implications before being agreed; and **i) Noted** that the target date for a market trial of the balancing market is 1 December 2011 with a full roll out on an agreed date in early April 2012 but these dates can be confirmed closer to the time working with System Management and Market Participants subject to consideration of the budgetary implications.	
10	**GENERAL BUSINESS** ***Curtailable Loads*** Mr Ken Brown noted that during the recent Varanus Island incident System Management dispatched Curtailable Loads on a number of occasions. System Management had inferred from the Market Rules that Curtailable Loads are to be treated as non-liquid fuelled Facilities, which should be dispatched before liquid fuelled Facilities. However, System Management was seeking certainty on this point as it considers the Market Rules are unclear. Mr Brown noted that Demand Side Management (DSM) usually had the same price as liquid fuelled generators. The Chair noted that Mr Brown's comments reflected recent conversations he had had with DSM providers. Most Curtailable Loads were available to the market for only 24 hours per year. Mr Brown noted that System Management was conscious of the restricted availability of Curtailable Loads and was reluctant to use them too early in a Capacity Year. The Chair noted the workshop planned for 15 April 2011 to review the Varanus Island incident and its impacts on the market, suggesting that System Management raise this question in that forum. Mr Brown advised that System Management had also experienced problems with the dispatch processes for Curtailable Loads, but noted that RC_2010_29 was expected to alleviate these problems. ***Availability Cost Calculations*** Mr Dykstra noted the email sent by the IMO to Market Participants on 8 April 2011 regarding a Settlements error affecting availability payments for Ancillary Services. Mr Dykstra queried whether the meaning of the email was that Market Participants had been paying double the correct amount for these payments. The Chair responded that Market Participants have not been paying double. Verve Energy have been paid for approximately 25 MW more of Spinning Reserve than it should have. The Chair noted that the calculations were complex and that Mr Bruce Cossill had offered to discuss the details with Market Participants on a one-on-one basis. Market Participants were urged to take up this opportunity.	

Item	Subject	Action
	Mr Dykstra queried how to obtain details of the impact on Alinta of the settlement error. The Chair observed that it took around one week to recalculate the settlements for a single Trading Month. If Alinta contacted Mr Cossill he should be able to provide an estimate of the financial impact on Alinta for a few months. In response to a question from Mr MacLean it was confirmed that the error had no impact on Market Customers.	
11	**NEXT MEETING** Meeting No. 38 will be held on Wednesday 11 May 2011.	
CLOSED: The Chair declared the meeting closed at 4.40 pm.		