



## Market Advisory Committee

### Agenda

<b>Meeting No.</b>	38
<b>Location:</b>	IMO Board Room Level 3, Governor Stirling Tower, 197 St Georges Terrace, Perth
<b>Date:</b>	Wednesday 11 May 2011
<b>Time:</b>	2.00 – 5.00pm

Item	Subject	Responsible	Time
1.	<b>WELCOME</b>	<b>Chair</b>	2 min
2.	<b>MEETING APOLOGIES / ATTENDANCE</b>	<b>Chair</b>	2 min
3.	<b>MINUTES OF PREVIOUS MEETING</b> (pg 3)	<b>Chair</b>	10 min
4.	<b>ACTIONS ARISING</b> (pg 19)	<b>Chair</b>	10 min
5.	<b>MARKET RULES</b>		
	a) Market Rule Change Overview (pg 21)	<b>IMO</b>	2 min
	b) PRC_2010_27: Ancillary Services Payment Equations (Verbal Update)	<b>IMO</b>	20 min
6.	<b>MARKET PROCEDURES</b>		
	a) Overview (pg 25)	<b>IMO</b>	5 min
7.	<b>CONCEPT PAPERS</b>		
	a) Placement of Curtailable/Dispatchable loads in the DMO (pg 31)	<b>SM</b>	15 min
	b) Dispatch Order of Curtailable/Dispatchable Load – Manifest Error (pg 35)	<b>SM</b>	15 min

<b>8.</b>	<b>WORKING GROUPS</b>		
	a) Overview and membership updates (pg 39)	<b>IMO</b>	2 min
	b) MRCPWG Update (pg 43)	<b>IMO</b>	10 min
<b>9.</b>	<b>GENERAL BUSINESS</b>		
<b>10.</b>	<b>NEXT MEETING: 8 June 2011 (2.00 – 5.00pm)</b>		

## Independent Market Operator

### Market Advisory Committee

#### Minutes

<b>Meeting No.</b>	37
<b>Location</b>	IMO Board Room Level 3, Governor Stirling Tower, 197 St Georges Terrace, Perth
<b>Date</b>	Wednesday 13 April 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	(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	
<b>Apologies</b>	<b>Class</b>	<b>Comment</b>
Michael Zammit	Discretionary – Customer	
Wana Yang	Observer – ERA	
Nerea Ugarte	Minister's appointee	
<b>Also in attendance</b>	<b>From</b>	<b>Comment</b>
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.	<p><b>WELCOME</b></p> <p>The Chair opened the meeting at 2.00 pm and welcomed members to the 37th meeting of the Market Advisory Committee (MAC).</p> <p>The Chair introduced Mr Alasdair Macdonald, who will be replacing Mrs Jacinda Papps in Market Development while she is on maternity leave.</p> <p>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.</p>	
2.	<p><b>MEETING APOLOGIES / ATTENDANCE</b></p> <p>Apologies were received from:</p> <ul style="list-style-type: none"> <li>• Michael Zammit</li> <li>• Wana Yang</li> <li>• Nerea Ugarte</li> </ul> <p>The following other attendees were noted:</p> <ul style="list-style-type: none"> <li>• Matt Schultz (Proxy for Michael Zammit)</li> <li>• Chris Brown (Proxy for Wana Yang)</li> <li>• Douglas Birnie (Presenter)</li> <li>• Kieran Murray (Presenter)</li> <li>• Cameron Perrotte (Observer)</li> <li>• Jacinda Papps (Observer)</li> <li>• Fiona Edmonds (Observer)</li> <li>• Courtney Roberts (Observer)</li> <li>• Alasdair Macdonald (Observer)</li> <li>• Ben Williams (Observer)</li> </ul>	
3.	<p><b>MINUTES OF PREVIOUS MEETING</b></p> <p>The minutes of MAC Meeting No. 36, held on 9 March 2011, were circulated prior to the meeting.</p> <p>The following amendments were agreed.</p> <p><b>Page 5: Section 4: Actions Arising (Action Point 14)</b></p> <ul style="list-style-type: none"> <li>• "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), <del>providing as it would provide</del> a good example of what worked and what did not work. Mr Dykstra noted ..."</li> </ul> <p><b>Page 7: Section 5b: Ancillary Services Payment Equations [PRC_2010_27]</b></p>	

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	<ul style="list-style-type: none"> <li>“... Mr Dykstra stated that the Minister had <del>not</del> provided guidance but he would expect Synergy <del>will want</del> <u>would be expected</u> to obtain its RECs locally.</li> </ul> <p>...</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 <del>indirectly</del> <u>ultimately</u> borne by Loads.”</p> <p><b>Page 8: Section 5b: Ancillary Services Payment Equations [PRC_2010_27]</b></p> <ul style="list-style-type: none"> <li>“... 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 <del>concepts</del> <u>models</u> were working.”</li> </ul> <p><b>Page 13: Section 9: General Business (Varanus Island Issue – Workshop)</b></p> <ul style="list-style-type: none"> <li>“... Mr Cremin agreed that the Varanus Island incident was a good example of a rare event, but was concerned more generally about the <del>severe unpredictable</del> financial impacts of Ancillary Service costs on <del>Griffin Energy's Facilities</del> <u>those facilities that normally bear the largest share of them.</u>”</li> </ul> <p><b>Page 14: Section 9: General Business (Rule Change Process)</b></p> <ul style="list-style-type: none"> <li>“... Mr Dykstra stated that <u>he</u> felt quite passionately about the issue.”</li> </ul> <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. 36 to reflect the points raised by the MAC and publish on the website as final.</i></p> <p>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.</p>	IMO

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	<p>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.</p> <p>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.</p>	
4.	<p><b>ACTIONS ARISING</b></p> <p>Most 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 14:</b> 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.</li> </ul>	
5a	<p><b>MARKET RULE CHANGE OVERVIEW</b></p> <p>The MAC noted the Market Rule Change Overview.</p>	
6a	<p><b>MARKET PROCEDURE CHANGE OVERVIEW</b></p> <p>The MAC noted the overview of recent and upcoming procedure changes.</p>	
7a	<p><b>WORKING GROUP OVERVIEW</b></p> <p>The MAC noted the Working Group overview.</p> <p>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 MRCPWG Chair.</p> <p><i>Action Point: The IMO to update the IMO website to reflect the change to the Chair of the MRCPWG.</i></p>	IMO

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7b	<p><b>MRCPWG UPDATE</b></p> <p>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.</p> <p>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.</p> <p>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.</p> <p>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.</p> <p>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.</p> <p>The MAC noted the MRCPWG update.</p>	
8	<p><b>MEP: RESERVE CAPACITY REFUNDS (UPDATE)</b></p> <p>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</p>	

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	<p>action is likely to prevent the implementation of a solution before next summer.</p> <p>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.</p> <p>The MAC noted the update on the MEP work on Reserve Capacity Refunds.</p>	
9	<p><b>MEP: BALANCING AND LOAD FOLLOWING ANCILLARY SERVICES MARKETS</b></p> <p>The Chair asked Mr Forward to give MAC members an overview of the MEP proposal for competitive balancing and LFAS.</p> <p>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.</p> <p><i>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”.</i></p> <p>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).</p> <p>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.</p> <p>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</p>	IMO



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	<p>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.</p> <p>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.</p> <p>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.</p> <p>Mr Murray noted that the CBA had quantified four key benefits over a six year period:</p> <ul style="list-style-type: none"> <li>• providing Independent Power Producers (IPPs) with an ability to clear their existing unused STEM offers through the balancing market;</li> <li>• 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;</li> <li>• earlier return of capacity from outage; and</li> <li>• a reduction in the number of curtailments of base load generation.</li> </ul> <p>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.</p> <p>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.</p> <p>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.</p> <p>Mr Murray noted that the second main change was a reduction of \$4.2</p>	

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	<p>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.</p> <p>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.</p> <p>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:</p> <ul style="list-style-type: none"> <li>• improved investment incentives;</li> <li>• increased levels of confidence in the wider market; and</li> <li>• lower transition costs in the future.</li> </ul> <p>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.</p> <p>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.</p> <p>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.</p> <p>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.</p> <p>Mr MacLean questioned whether the overall result of the CBA would</p>	

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	<p>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.</p> <p>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.</p> <p>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.</p> <p>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.</p> <p>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).</p> <p>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</p>	

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	<p>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.</p> <p>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.</p> <p>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.</p> <p>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.</p> <p>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.</p> <p>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 than implementing the two components separately.</p> <p>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</p>	

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	<p>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.</p> <p>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.</p> <p>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.</p> <p>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.</p> <p>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.</p> <p>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.</p> <p>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.</p>	

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	<p>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.</p> <p>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.</p> <p>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.</p> <p>Mr Dykstra considered that the proposal appeared to be the best option available to increase participation in balancing. 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 not worth the time, effort and risks involved.</p> <p>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 detailed design process. 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.</p> <p>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.</p> <p>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.</p> <p>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.</p> <p>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</p>	

Item	Subject	Action
	<p>benefits would be sufficient.</p> <p>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.</p> <p>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.</p> <p>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.</p> <p>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.</p> <p>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.</p> <p>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.</p> <p>The MAC discussed the proposed recommendations contained in section 12 of the Recommendation Paper.</p> <p>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).</p> <p>The MAC:</p> <p><b>a) Noted</b> the RDIWG's Terms of Reference as set out in Appendix 1 of</p>	

Item	Subject	Action
	<p>the Recommendation Paper and the previous MAC and RDIWG decisions set out in Appendix 2;</p> <p><b>b) Noted</b> 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;</p> <p><b>c) Noted</b> the proposal:</p> <ul style="list-style-type: none"> <li>i. appears consistent with the RDIWG's Terms of Reference and the Wholesale Market Objectives;</li> <li>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;</li> <li>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;</li> <li>iv. provides net benefits according to the CBA;</li> <li>v. has been developed within the IMO – MEP budget, noting the budget implications for any delays experienced in delivering the programme;</li> </ul> <p><b>d) Noted</b> 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;</p> <p><b>e) Noted</b> 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;</p> <p><b>f) Noted</b> 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;</p> <p><b>g) Noted</b> 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;</p> <p><b>h) Recommended</b> to the IMO Board that any amendments to the design as set out in Appendix 3 of the Recommendation Paper should be</p>	



Item	Subject	Action
	<p>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</p> <p><b>i) Noted</b> 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.</p>	
10	<p><b>GENERAL BUSINESS</b></p> <p><b><i>Curtailable Loads</i></b></p> <p>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.</p> <p>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.</p> <p>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.</p> <p><b><i>Availability Cost Calculations</i></b></p> <p>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.</p> <p>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.</p>	

Item	Subject	Action
	<p>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.</p> <p>In response to a question from Mr MacLean it was confirmed that the error had no impact on Market Customers.</p>	
11	<b>NEXT MEETING</b> Meeting No. 38 will be held on Wednesday 11 May 2011.	
<b>CLOSED:</b> The Chair declared the meeting closed at 4.40 pm.		



## Agenda item 4: 2010/11 MAC Action Points

Legend:

<b>Shaded</b>	Shaded action points are actions that have been completed since the last MAC meeting.
<b>Unshaded</b>	Unshaded action points are still being progressed.
<b>Missing</b>	Action items missing in sequence have been completed from previous meetings and subsequently removed from log.

#	Year	Action	Responsibility	Meeting arising	Status/Progress
119	2010	The IMO, in March 2011, to review with System Management whether there is an issue with the registration and dispatch of a large number of small Demand Side Programmes, and report back to the MAC.	IMO	September	Completed.
14	2011	The IMO to work with EnerNOC to consider and respond to the comments received from MAC members on the Pre Rule Change Discussion Paper: Methodology for the Relevant Demand Calculation (PRC_2011_01).	IMO	February	Completed.

#	Year	Action	Responsibility	Meeting arising	Status/Progress
21	2011	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.	IMO	April	Completed.
22	2011	The IMO to update the IMO website to reflect the change to the Chair of the MRCPWG.	IMO	April	Completed.
23	2011	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".	IMO	April	Completed. Contained in the minutes of the RDIWG.



## Agenda Item 5a: Overview of Market Rule Changes

Below is a summary of the status of Market Rule Changes that are either currently being progressed by the IMO or have been registered by the IMO as potential Rule Changes to be progressed in the future.

Rule changes: Formally submitted (see appendix 1)	4 May 2011
Fast track with Consultation Period open	0
Standard Rule Changes with 1st Submission Period Open	2
Fast Track Rule Changes with Consultation Period Closed (final report being prepared)	0
Standard Rule Changes with 1st Submission Period Closed (draft report being prepared)	4
Standard Rule Changes with 2nd Submission Period Open	0
Standard Rule Changes with 2nd Submission Period Closed (final report being prepared)	5
Rule Changes - Awaiting Minister's Approval and/or Commencement	2
<b>Total Rule Changes Currently in Progress</b>	<b>13</b>

Potential changes logged by the IMO- Not yet formally submitted	March	April
High Priority (to be formally submitted in the next 3/6 months)	0	0
Medium Priority (may be submitted in the next 6/12 months)	22	22 (+0/-0)
Low Priority (may be submitted in the next 12/18 months)	20	20 (+0/-0)
<b>Potential Rule Changes (H, M and L)</b>	<b>42</b>	<b>42</b>
Minor and typographical (submitted in three batches per year)	39	40 (+1)
<b>Total Potential Rule Changes</b>	<b>81</b>	<b>82</b>

The changes in the rule change and issues log from March to April have arisen from:

Priority	Issue
High	N/a
Medium	<p><b>In:</b></p> <ul style="list-style-type: none"><li>• No issues have been added to the log this month.</li></ul> <p><b>Out:</b></p> <ul style="list-style-type: none"><li>• No issues have been progressed this month.</li></ul>
Low	<p><b>In:</b></p> <ul style="list-style-type: none"><li>• No issues have been added to the log this month.</li></ul> <p><b>Out:</b></p> <ul style="list-style-type: none"><li>• No issues have been progressed this month.</li></ul>

## APPENDIX 1: FORMALLY SUBMITTED RULE CHANGES

### Standard Rule Change with First Submission Period Open

ID	Date submitted	Title	Submitter	Next Step	Date
RC_2010_31	18/03/2011	De-registration of Rule Participants who no longer meet registration requirements	IMO	Submission period ends	05/05/2011
RC_2011_02	14/03/2011	Reassessment of Allowable Revenue during a Review Period	ERA	Submission period ends	12/05/2011

### Standard Rule Change with First Submission Period Closed

ID	Date submitted	Title	Submitter	Next Step	Date
RC_2010_08	15/04/2010	Removal of DDAP uplift when less than facility minimum generation	Griffin Energy	Publish Draft Rule Change Report	19/09/2011
RC_2010_25	29/11/2010	Calculation of the Capacity Value of Intermittent Generation - Methodology 1 (IMO)	IMO	Publish Draft Rule Change Report	20/05/2011
RC_2010_28	01/03/2011	Capacity Credit Cancellation	IMO	Publish Draft Rule Change Report	16/05/2011
RC_2010_37	30/11/2010	Calculation of the Capacity Value of Intermittent Generation - Methodology 2 (Griffin Energy)	Griffin Energy	Publish Draft Rule Change Report	20/05/2011

### Standard Rule Change with Second Submission Period Closed

ID	Date submitted	Title	Submitter	Next Step	Date
RC_2010_12	17/11/2010	Required Level and Reserve Capacity Security	IMO	Publish Draft Rule Change Report	01/06/2011
RC_2010_14	06/12/2010	Certification of Reserve Capacity	IMO	Publish Draft Rule Change Report	12/05/2011
RC_2010_22	18/11/2010	Partial Commissioning of Intermittent Generators	IMO	Publish Draft Rule Change Report	01/06/2011
RC_2010_29	02/02/2010	Curtailable Loads and Demand Side Programmes	IMO	Publish Draft Rule Change Report	20/05/2011
RC_2010_33	17/12/2010	Cost_LR	Verve Energy	Publish Draft Rule Change Report	16/05/2011

### Rule Changes Awaiting Commencement/Ministerial Approval

ID	Date submitted	Title	Submitter	Next Step	Date
RC_2010_11	15/10/2010	Removal of Network Control Services Expression of Interest and Tender Process from the Market Rules	IMO	Commencement	01/07/2011
RC_2010_24	03/08/2010	Adjustment of Relevant Level for Intermittent Generation Capacity	Alinta	Commencement	01/07/2011





## Agenda Item 6a: Overview of Recent and Upcoming IMO and System Management Procedure Change Proposals

### Legend:

<b>Shaded</b>	Shaded rows indicate procedure changes that have been completed since the last MAC meeting.
<b>Unshaded</b>	Unshaded rows are procedure changes still being progressed.

Change ID	Title	Brief overview of changes	Status	Next Step(s)	Date
<b>IMO Procedure Change Proposals</b>					
PC_2010_03	Monitoring Protocol	The proposed updates are to: <ul style="list-style-type: none"> <li>• Allow the IMO to disclose the identity of System Management as a participant that notifies us of alleged breaches; and</li> <li>• Update to conform to recently adopted style changes.</li> </ul>	<ul style="list-style-type: none"> <li>• Final Report being prepared</li> </ul>	<ul style="list-style-type: none"> <li>• Final Report to be published</li> </ul>	TBA
PC_2010_05	Reserve Capacity Performance Monitoring	The proposed updates are to: <ul style="list-style-type: none"> <li>• Include the changes to the Amending Rules arising from RC_2010_11, RC_2009_19 and RC_2010_02;</li> <li>• Update to conform to recently adopted style changes.</li> </ul>	<ul style="list-style-type: none"> <li>• Due to commence</li> </ul>	<ul style="list-style-type: none"> <li>• Commenced</li> </ul>	18 April 2011

Change ID	Title	Brief overview of changes	Status	Next Step(s)	Date
PC_2010_08	Supplementary Reserve Capacity (SRC)	<p>The proposed new Market Procedure describes the process that the IMO and System Management will follow in:</p> <ul style="list-style-type: none"> <li>• acquiring Eligible Services,</li> <li>• entering into SRC Contracts;</li> <li>• determining the maximum contract value per hour of availability for any contract; and</li> <li>• Details the information that is required to be exchanged.</li> </ul> <p>This Market Procedure needs to be published (as required by the Market Rules) and will be revised following any rule changes (if applicable).</p>	<ul style="list-style-type: none"> <li>• Final Report being prepared</li> </ul>	<ul style="list-style-type: none"> <li>• Final Report to be published</li> </ul>	TBA
PC_2011_01	Procurement of Network Control Services	<p>RC_2010_11<sup>1</sup> (Removal of NCS Expression of Interest and Tender Process from the Market Rules) removes the NCS expression of interest, tender and contracting processes from the Market Rules to allow a Network Operator to undertake these processes under the regulatory oversight of the Economic Regulation Authority. As this Rule Change Proposal removes the heads of power (and the requirement) for the Market Procedure the IMO proposes to revoke the Market Procedure in its entirety.</p>	<ul style="list-style-type: none"> <li>• Final Report being prepared</li> </ul>	<ul style="list-style-type: none"> <li>• Final Report to be published</li> </ul>	TBA

<sup>1</sup> Refer to [www.imowa.com.au/RC\\_2010\\_11](http://www.imowa.com.au/RC_2010_11)

Change ID	Title	Brief overview of changes	Status	Next Step(s)	Date
PC_2011_02	Data and IT Interface Requirements	<p>The proposed updates are to:</p> <ul style="list-style-type: none"> <li>• Reflect the IMO's new format arising from its Market Procedures project;</li> <li>• Include some minor and typographical amendments to improve the integrity of the Market Procedure;</li> <li>• Remove the minimum workstation requirements, specifically outlining just the recommended workstation requirements;</li> <li>• Clarify the internet explorer requirements for different versions of the Market Participant Interface; and</li> <li>• Update the IMO's Access Security section.</li> </ul>	<ul style="list-style-type: none"> <li>• Proposal submitted and currently out for consultation.</li> </ul>	<ul style="list-style-type: none"> <li>• Submissions close</li> </ul>	5 May 2011
PC_2011_03	Registration of DSPs and the association of NDLS (Transitional Arrangements)	<p>This is a new Market Procedure for Registration of Demand Side Programmes and the association of Non-Dispatchable Loads it is a transitional Market Procedure specifying the processes to be followed by the IMO and Market Customers between 1 June 2011 and 1 October 2011, for:</p> <ul style="list-style-type: none"> <li>• Registering a DSP;</li> <li>• Linking a CL to a DSP;</li> <li>• Associating an NDL to a DSP; and</li> <li>• Reassigning Capacity Credits from one DSP to one or more other DSPs.</li> </ul>	<ul style="list-style-type: none"> <li>• Proposal submitted and currently out for consultation.</li> <li>• Public Notice published 27 April 2011.</li> </ul>	<ul style="list-style-type: none"> <li>• Submissions close</li> </ul>	9 May 2011
PC_2011_04	Prudential Requirements	<p>The proposed updates are to:</p> <ul style="list-style-type: none"> <li>• Reflect the IMO's new format arising from its Market Procedures project;</li> <li>• Include some minor and typographical</li> </ul>	<ul style="list-style-type: none"> <li>• Presented at the 2 February 2011 working group meeting.</li> </ul>	<ul style="list-style-type: none"> <li>• IMO currently considering working group comments</li> </ul>	May 2011

Change ID	Title	Brief overview of changes	Status	Next Step(s)	Date
		<p>amendments to improve the integrity of the Market Procedure;</p> <ul style="list-style-type: none"> <li>• Include amendments required as a result of two Rule Change Proposals: <ul style="list-style-type: none"> <li>◦ RC_2010_11<sup>2</sup> Removal of Network Control Services (NCS) Expression of Interest and Tender Process from the Market Rules; and</li> <li>◦ RC_2010_36<sup>3</sup> Acceptable Credit Criteria;</li> </ul> </li> </ul> <p>The IMO would like to note that the remainder of the Market Procedure is out of scope for the purposes of this Procedure Change Proposal, as the IMO is currently undertaking a more detailed process review regarding Prudential requirements. Any amendments resulting from this review will be presented to the Working Group.</p>			
TBD	Undertaking the LT PASA and conducting a review of the Planning Criterion	<p>The proposed updates are to:</p> <ul style="list-style-type: none"> <li>• Reflect the IMO's new format arising from its Market Procedures project;</li> <li>• Include some minor and typographical amendments to improve the integrity of the Market Procedure, including re-ordering some sections; and</li> <li>• Include both reviews required under clause 4.5.15 of the Market Rules (Planning Criterion and forecasting processes).</li> </ul>	<ul style="list-style-type: none"> <li>• Updating procedure as a result of 2 February 2011 working group meeting.</li> </ul>	<ul style="list-style-type: none"> <li>• Updated procedure to be presented at the next working group meeting, to be scheduled.</li> </ul>	TBD

<sup>2</sup> Refer to [www.imowa.com.au/RC\\_2010\\_11](http://www.imowa.com.au/RC_2010_11)

<sup>3</sup> Refer to [www.imowa.com.au/RC\\_2010\\_36](http://www.imowa.com.au/RC_2010_36)

Change ID	Title	Brief overview of changes	Status	Next Step(s)	Date
TBD	Reserve Capacity Security	<p>The proposed updates are to:</p> <ul style="list-style-type: none"> <li>• Reflect the IMO's new format arising from its Market Procedure project;</li> <li>• Reflect the broader heads of power for the Market Procedure; and</li> <li>• Ensure consistency with the proposed Amending Rules under the following Rule Change Proposals that the IMO is currently progressing: <ul style="list-style-type: none"> <li>◦ Reserve Capacity Security (RC_2010_12);</li> <li>◦ Certification of Reserve Capacity (RC_2010_14);</li> <li>◦ Capacity Credit Cancellation (RC_2010_28); and</li> <li>◦ Acceptable Credit Criteria (RC_2010_36).</li> </ul> </li> </ul>	<ul style="list-style-type: none"> <li>• Presented at the 28 March 2011 working group meeting.</li> </ul>	<ul style="list-style-type: none"> <li>• Awaiting further comments from members due 11 April 2011.</li> </ul>	11 April 2011
<b>System Management Procedure Change Proposals</b>					
PPCL0016	Commissioning and Testing	The proposed update is to amend the procedure to reflect the commenced RC_2010_37 'Equipment Tests'.	<ul style="list-style-type: none"> <li>• Submissions closed 13 January 2011.</li> <li>• Final Report being prepared by System Management</li> </ul>	<ul style="list-style-type: none"> <li>• Final Report to be provided to the IMO for approval</li> </ul>	
PPCL0017	Facility Outages	The proposed update is to amend the procedure to reflect the commenced RC_2010_05 'Confidentiality of Accepted Outages by System Management'.	<ul style="list-style-type: none"> <li>• Submissions closed 13 January 2011.</li> <li>• Final Report being prepared by System Management</li> </ul>	<ul style="list-style-type: none"> <li>• Final Report to be provided to the IMO for approval</li> </ul>	
PPCL0018	Dispatch	The proposed updates are to allow for discretion to be exercised in requesting daily dispatch profiles from Market participants with facilities smaller than	<ul style="list-style-type: none"> <li>• Submissions closed 8 April 2011.</li> <li>• Final Report being</li> </ul>	<ul style="list-style-type: none"> <li>• Final Report to be provided to the IMO for approval</li> </ul>	

Change ID	Title	Brief overview of changes	Status	Next Step(s)	Date
		30 MW.	prepared by System Management		
PPCL0019	Monitoring and Reporting Protocol	<p>The proposed updates are to provide further details around how System management will determine and review the annual Tolerance Range and any Facility Tolerance Ranges to apply for the purposes of clause 7.10.1 and 3.21 of the Market Rules.</p> <p>The proposed updates will ensure consistency with the requirements of RC_2009_22 and in particular the new clause 2.13.6K.</p>	<ul style="list-style-type: none"> <li>• Submissions closed 8 April 2011.</li> <li>• Final Report being prepared by System Management</li> </ul>	<ul style="list-style-type: none"> <li>• Final Report to be provided to the IMO for approval</li> </ul>	

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## Wholesale Electricity Market

### Concept Paper Proposal Form

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**Concept Proposal No:** CP\_2011\_01  
**Received date:** 28 April 2011

#### Concept requested by

<b>Name:</b>	Brendan Clarke
<b>Phone:</b>	9427 5940
<b>Fax:</b>	9427 4228
<b>Email:</b>	Brendan.Clarke@westernpower.com.au
<b>Organisation:</b>	Western Power
<b>Address:</b>	
<b>Date submitted:</b>	27 April 2011
<b>Urgency:</b>	3-high
<b>Concept proposal title:</b>	Placement of Curtailable/Dispatchable in the Dispatch Merit Order
<b>Market Rule(s) affected:</b>	Clause 7.6.3 and Appendix 1

#### Introduction

The purpose of a Concept Paper is to foster analysis and discussion of complex issue(s) that can affect the Wholesale Electricity Market (Market), the Market Rules and the Wholesale Market Objectives.

The objectives of the market are:

- (a) to promote the economically efficient, safe and reliable production and supply of electricity and electricity related services in the South West interconnected system;
- (b) to encourage competition among generators and retailers in the South West interconnected system, including by facilitating efficient entry of new competitors;
- (c) to avoid discrimination in that market against particular energy options and technologies, including sustainable energy options and technologies such as those that make use of renewable resources or that reduce overall greenhouse gas emissions;
- (d) to minimise the long-term cost of electricity supplied to customers from the South West interconnected system; and
- (e) to encourage the taking of measures to manage the amount of electricity used and when it is used.

This Concept Paper Proposal can be posted, faxed or emailed to:

**Independent Market Operator**

Attn: Manager Market Development  
PO Box 7096  
Cloisters Square, Perth, WA 6850

Fax: (08) 9254 4339

Email: [market.development@imowa.com.au](mailto:market.development@imowa.com.au)

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## General Information about Concept Paper Proposals

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On receipt of this Concept Paper Proposal the Independent Market Operator (IMO) will proceed following these steps:

1. Log the proposal and notify the proposer that it has been received;
2. Assess the concept and consult with the Market Advisory Committee (MAC) for prioritisation against other Rule Participant issues registered; and
3. Work cooperatively with the proposer to develop the full concept paper including:
  - assessment against the Market Objectives; and
  - undertaking a detailed cost benefit analysis related to the identified options.

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## Details of the proposed Concept Paper

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### **1. Identify the issue(s) with the existing Market and/or its Market Rules that are to be addressed by the proposed concept paper (including any examples):**

The Market Rules are ambiguous in regard to the placement of curtailable/ dispatchable loads in the dispatch class order. Market Rule 7.6 sets out the order which is currently used by System Management. It categorises supply facilities by ownership (Verve or IPP) and fuel type (broadly liquid and non-liquid).

- Class 1. Verve Non Liquid (other than distillate, fuel oil, liquid petroleum gas, or liquefied natural gas)
- Class 2. IPP Non Liquid (other than distillate, fuel oil, liquid petroleum gas, or liquefied natural gas)



- Class 3. Verve Liquid (distillate, fuel oil, liquid petroleum gas, or liquefied natural gas)
- Class 4. IPP Liquid distillate, fuel oil, liquid petroleum gas, or liquefied natural gas)

Because the market rules do not require that curtailable/dispatchable loads specify their fuel nomination, it is unclear whether they should be dispatched under class 2 or class 4.

The dispatch merit order that is compiled by the IMO and sent to System Management on each scheduling day, a fuel type of “Non-Liquid” is assigned to curtailable/dispatchable loads. This implies membership of Class 2 and System Management dispatches these facilities on that basis.

However, the Market Rules require curtailable/dispatchable loads to enter standing data (Appendix 1.(h)vi and (i)xA) and do not prevent them from entering prices at the alternative maximum STEM (liquid) price. This implies that such facilities should be dispatched as part of Class 4.

In practice, unless there was a genuine system demand for it (which implies that System Management would be considering the dispatch of class 4 facilities), System Management would generally retain this reserve until at least the end of the summer peak period.

Although it would be preferable for curtailable/dispatchable loads to be considered in a Class that is more consistent with the way that they are going to be utilised for the majority of the year, market rule 7.7.4 (c) gives System Management adequate discretion in relation to its current practice.

However, System Management wishes to ensure that the market is aware that, under the current rules it is possible for a curtailable/dispatchable load to be paid at maximum alternative STEM price (liquid) prices if it were to be dispatched alongside other non-liquid members of class 2.

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## **2. Outline the overall objective of the Concept Paper Proposal:**

This concept paper aims to highlight the conflict that is currently in the Market Rules and propose changes to remove it. System Management considers that the Market should discuss the issue as there are likely to be commercial/ efficiency implications for both individual participants and the market as a whole.

Clarity for participants could be removed by removing the ambiguity. Limiting the number of times under which System Management needs to exercise its discretion under 7.7.4(c) would contribute to greater certainty within the market.

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### **3. Identify any reasonably practicable options for achieving the objective:**

There are two options that the market can consider

1. place curtailable and dispatchable loads before Verve liquid in the IPP Non-liquid class for dispatch
2. place curtailable and dispatchable loads after Verve liquid in the IPP Liquid class for dispatch.

System Management believes that the option selected is best decided at MAC.

In the absence of any clear direction System Management believes that curtailable/dispatchable loads be placed within the IPP liquid class (Option 2). This is consistent with low capacity factor facilities requiring higher energy and lower capacity payments relative to middle/ high capacity factor facilities.

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## Wholesale Electricity Market

### Concept Paper Proposal Form

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**Concept Proposal No:** CP\_2011\_02  
**Received date:** 28 April 2011

#### Concept requested by

<b>Name:</b>	Brendan Clarke
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<b>Organisation:</b>	Western Power
<b>Address:</b>	
<b>Date submitted:</b>	27 April 2011
<b>Urgency:</b>	3-high
<b>Concept proposal title:</b>	Dispatch Order of Curtailable/Dispatchable Load – Manifest Error
<b>Market Rule(s) affected:</b>	Clause 7.6.3 and Appendix 1

#### Introduction

The purpose of a Concept Paper is to foster analysis and discussion of complex issue(s) that can affect the Wholesale Electricity Market (Market), the Market Rules and the Wholesale Market Objectives.

The objectives of the market are:

- (a) to promote the economically efficient, safe and reliable production and supply of electricity and electricity related services in the South West interconnected system;
- (b) to encourage competition among generators and retailers in the South West interconnected system, including by facilitating efficient entry of new competitors;
- (c) to avoid discrimination in that market against particular energy options and technologies, including sustainable energy options and technologies such as those that make use of renewable resources or that reduce overall greenhouse gas emissions;
- (d) to minimise the long-term cost of electricity supplied to customers from the South West interconnected system; and
- (e) to encourage the taking of measures to manage the amount of electricity used and when it is used.

This Concept Paper Proposal can be posted, faxed or emailed to:

**Independent Market Operator**

Attn: Manager Market Development  
PO Box 7096  
Cloisters Square, Perth, WA 6850

Fax: (08) 9254 4339

Email: [market.development@imowa.com.au](mailto:market.development@imowa.com.au)

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## General Information about Concept Paper Proposals

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On receipt of this Concept Paper Proposal the Independent Market Operator (IMO) will proceed following these steps:

1. Log the proposal and notify the proposer that it has been received;
2. Assess the concept and consult with the Market Advisory Committee (MAC) for prioritisation against other Rule Participant issues registered; and
3. Work cooperatively with the proposer to develop the full concept paper including:
  - assessment against the Market Objectives; and
  - undertaking a detailed cost benefit analysis related to the identified options.

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## Details of the proposed Concept Paper

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### 1. Identify the issue(s) with the existing Market and/or its Market Rules that are to be addressed by the proposed concept paper (including any examples):

For each Reserve Capacity Cycle facilities are procured for the forecast requirements in the capacity year 2 years after the start of the Reserve Capacity cycle. The procurement can source generation and demand side response facilities.

In the last two Statement of Opportunities (SOO), the IMO has applied a **probabilistic criteria** in setting the minimum level, which results in a potential **penetration of demand side response of 24%**. This level is substantially above

that which SM would consider to be the maximum level that could be achieved on the SWIS without impacting on its legislative obligation to operate the SWIS in a secure and reliable manner.

The 2010 SOO determined the following results for the 2012/13 capacity year.

### Inputs

1.
  - 10% POE Load = 4,986 MW
  - Reserve Margin = 409 MW
  - Load Following = 90 MW
  - Intermittent Load = 16 MW
  - Capacity Requirement = 5,501 MW
2. 10% POE Load more than 96 hours = 4,158 MW

### Outputs

Minimum generation requirement = 4,097 MW ( based upon 0.002% Unserved Energy Criterion of the modified demand curve)

Hence, the capacity that may be available from demand side response is  $5,501 - 4,158 = 1,343$  MW (24% of total requirement). This is well in excess of normal demand side penetration.

Market Rule 4.5.12 Determines how much capacity required in any year must be sourced from generation (as opposed to demand side management), it is given below

*“(b) the minimum capacity required to be provided by generation capacity if Power System Security and Power System Reliability is to be maintained. This minimum capacity is to be set at a level such that if:*

*i all Demand Side Management capacity (excluding Interruptible Load used to provide Spinning Reserve to the extent that it is anticipated to provide Certified Reserve Capacity), were activated during the Capacity Year so as to minimise the peak demand during that year; and*

*ii the Planning Criterion and the criteria for evaluating Outage Plans set out in clause 3.18.11 were to be applied to the load scenario defined by (i), then*

*it would be possible to satisfy the Planning Criterion and the criteria for evaluating Outage Plans set out in clause 3.18.11, as applied in paragraph (ii), using, to the extent that the capacity is anticipated to provide Certified Reserve Capacity, the anticipated installed generating capacity, the anticipated Interruptible Load capacity available as Spinning Reserve and, to the extent that further generation capacity would be required, an appropriate mix of generation capacity to make up that shortfall; and”*

System Management contends that the application of this rule relates to a **deterministic criterion** and does not relate to the **probabilistic criterion** as used in the latest SOO.

The planning criteria set out in clause 3.18.11 requires there to be sufficient capacity to remain in service to cover the loss of the largest unit and have all reserves in place. In addition rule 4.15.2 excludes the capacity associated with interruptible loads

Currently the value of loss of the largest unit and all reserves = 539 MW, as given in the MT PASA and the value of interruptible loads is 42MW.

Hence if this criterion was used the minimum generation requirement for the 2012/13 capacity year is  $4,158 + 539 + 42 = 4,739$  MW

Further the maximum capacity available from demand side response would be  $5,501 - 4,739 = 762$  MW (14% of total requirement).

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## 2. Outline the overall objective of the Concept Paper Proposal:

The intention of this concept paper is to identify, for the benefit of the market, a substantial issue with the current interpretation of market rule 4.15.2.

In System Management's view, continuation of the current approach is likely to impact severely on its ability to operate the SWIS in a secure and reliable manner and System Management wishes to discuss this, and the implications of a continuation of this approach with the MAC.

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## 3. Identify any reasonably practicable options for achieving the objective:

System Management believes that MAC should:

1. Discuss the issue of Demand side response penetration
  2. Re-affirm the use of the deterministic criterion.
  3. Note that application of a deterministic criterion will lead to a maximum DSM penetration of 14% which, anecdotally at least, is still substantially in excess of that which applies in other markets
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## Agenda Item 8a: Working Group Overview

### 1. WORKING GROUP OVERVIEW

Working Group (WG)	Status	Date commenced	Date concluded	Latest meeting date	Next scheduled meeting date
Reserve Capacity 2007 WG	Closed	Feb 07	May 07	-	-
NTDL WG	Closed	Oct 07	Nov 07	-	-
Energy Limits WG	Closed	Dec 07	Jan 08	-	-
DSM WG	Closed	Jan 08	May 08	-	-
SRC WG	Closed	Jun 08	Sept 08	-	-
Reserve Capacity 2008/09 WG	Closed	Dec 08	Jan 09	-	-
Renewable Energy Generation WG	Closed	Mar 08	Nov 10	-	-
System Management Procedures WG	Active	Jul 07	Ongoing	28/10/2010	TBA
IMO Procedures WG	Active	Dec 07	Ongoing	28/03/2011	TBA
Maximum Reserve Capacity Price WG	Active	May 10	Ongoing	24/03/2011	05/05/2011
Rules Development Implementation WG	Active	Aug 10	Ongoing	03/05/2011	31/05/2011

## 2. WORKING GROUP MEMBERSHIP UPDATES

In accordance with the Terms of Reference (ToR) the Market Advisory Committee (MAC) must approve the appointment and substitution of members for the:

- IMO Procedure Change and Development Working Group;
- System Management Procedure Change and Development Working Group; and
- Rules Development Implementation Working Group

The MAC has received a request for Alasdair Macdonald to replace Jacinda Papps as the Chair for the IMO Procedure Change and Development Working Group and as an IMO representative on the System Management Procedure Change and Development Working Group.

The ToR has been amended as shown in appendix 1 and 2.

The MAC has also received a request for Wana Yang to replace Chris Brown as the ERA's representative on the Rules Development Implementation Working Group.

The ToR does not specifically list the members, so an amended ToR is not required.

## 3. RECOMMENDATIONS

The IMO recommends that the MAC:

- **Agree** with the proposed amendments to the membership of these Working Groups.



## ***Terms of Reference***

### **The IMO Procedure Change and Development Working Group**

#### **SCOPE**

The Working Group's scope of work includes consideration, assessment and development of changes to IMO Market Procedures which the Market Rules require the IMO to develop. A Report on each Procedure Change proposed by the Working Group will be provided to MAC which demonstrates that the proposed change is consistent with the Wholesale Market Objectives and the Market Rules.

#### **TERMS OF REFERENCE**

- Members of the Working Group are appointed and substituted by MAC.
- The members of the Working Group are:

Jacinda Papps	Alasdair Macdonald (Chair)	-	IMO
Adam Lourey		-	Industry Representative, Alinta Limited
Michael Frost		-	Industry Representative, Perth Energy
Steve Gould		-	Industry Representative, Landfill Gas and Power
Grace Tan		-	System Management Representative
John Rhodes		-	Synergy Representative
Andrew Everett		-	Verve Energy Representative
Fiona Edmonds		-	IMO

- An issue can be referred to the Working Group for consideration by the MAC or the IMO. Generally, issues referred to the Working Group will relate to proposed procedure changes.
- The Working Group will be convened by the Chair upon request from the MAC Chair, or as required to complete its Scope of Work within the required timeframes.
- The Working Group will meet as required to provide the MAC and the IMO with a detailed analysis and advice regarding the issue referred to them.
- The Working Group will consider and develop, where appropriate, procedure changes within the timeframes set by the Chair with respect to each proposed procedure change.
- Procedure changes proposed by the Working Group must be consistent with the Wholesale Market Objectives and the Market Rules.
- Members are expected to attend as many Working Group meetings as practicable.
- The MAC may review, amend and extend these terms of reference, as necessary.

## ***Terms of Reference***

### **The System Management Procedure Change and Development Working Group**

#### **SCOPE**

The Working Group's scope of work includes consideration; assessment and development of changes to System Management Market Procedures which the Market Rules require System Management to develop. A Report on each Procedure Change proposed by the Working Group will be provided to MAC which demonstrates that the proposed change is consistent with the Wholesale Market Objectives and the Market Rules.

#### **MEMBERSHIP AND PROCESS**

- Members of the Working Group are appointed and substituted by MAC.
- The members of the Working Group are:

Phil Kelloway (Chair)	-	System Management
Debra Rizzi	-	Industry Representative, Alinta Limited
Tremayne Pirnie	-	Industry Representative, The Griffin Group
Michael Frost	-	Industry Representative, Perth Energy
Rene Kuypers	-	Industry Representative, Infigen Energy
Steve Gould	-	Industry Representative, Landfill Gas & Power
Nick Walker	-	Verve Representative
Wesley Medrana	-	Synergy Representative
Neil Hay	-	System Management
Fiona Edmonds	-	IMO
<del>Jacinda Papps</del> Alasdair Macdonald	-	IMO

- An issue can be referred to the Working Group for consideration by MAC or the IMO. Generally, issues referred to the Working Group will relate to proposed Procedure Changes.
- The Working Group will meet as required to provide MAC and the IMO with a detailed analysis and advice regarding the issue referred to them.
- The Working Group will consider and develop, where appropriate, Procedure changes within the timeframes set by the Chair with respect to each proposed Procedure change.
- Procedure Changes proposed by the Working Group must be consistent with the Wholesale Market Objectives and the Market Rules
- Members are expected to attend as many Working Group meetings as practicable.
- MAC may review, amend and extend these terms of reference, as necessary.



## Agenda Item 8b: MRCPWG Update

### 1. RECENT PROGRESS

The Maximum Reserve Capacity Price Working Group (MRCPWG) last met on 24 March 2011. The next Working Group meeting is scheduled for 5 May 2011.

Following a recommendation by the MRCPWG at the 17 February 2011 meeting, the IMO has appointed WorleyParsons to provide independent advice regarding the development of the margin M (covering legal, financing, approvals and other costs) and forward escalation factors. The IMO expects this work to be completed in time for consideration by the MRCPWG at the 5 May 2011 meeting.

The 5 May 2011 meeting will consider:

- the methodology for determination of the margin M;
- the use of forward escalation factors for translating costs to June in Year 1 of the relevant Reserve Capacity Cycle;
- a report by the IMO detailing the impact of changes to:
  - the capitalisation period (currently 15 years), including changes in maintenance and other costs;
  - the Debt Risk Premium;
  - the application of the WACC in the calculation of the Maximum Reserve Capacity Price (MRCP); and
  - the Transmission Cost methodology; and
- an updated draft Market Procedure, incorporating:
  - the revised Transmission Cost methodology that was broadly endorsed at the 24 March 2011 meeting;
  - instruction for the IMO to follow recent regulatory practice in the determination of the Debt Risk Premium;
  - an allowance within the Fixed O&M cost component for insurance to cover the replacement cost of the Facility; and
  - alignment of the size of the land parcel with available lot sizes in each location.

Following the review of the updated draft Market Procedure at the 5 May 2011 meeting, the MRCPWG will consider the timing for the submission of the draft Market Procedure into the Procedure Change Process, as discussed at the 13 April 2011 MAC meeting. The IMO also proposes to provide an extensive update to the 8 June 2011 MAC meeting explaining the significant changes to the MRCP methodology that have been agreed by the MRCPWG.

### 2. RECOMMENDATION

It is recommended that the MAC:

- **note** this update.