Independent Market Operator

Market Advisory Committee

Minutes

Meeting No.	39
Location	IMO Board Room Level 3, Governor Stirling Tower, 197 St Georges Terrace, Perth
Date	Wednesday 8 June 2011
Time	Commencing at 2.00 pm

Attendees	**Class**	**Comment**
Allan Dawson	Chair	
Stephen MacLean	Compulsory – Customer	
Brendan Clarke	Compulsory – System Management	Proxy
Brad Huppatz	Compulsory – Generator	Proxy
Neil Gibbney	Compulsory – Network Operator	Proxy
Steve Gould	Discretionary – Customer	
Corey Dykstra	Discretionary – Customer	
Michael Zammit	Discretionary – Customer	
Peter Huxtable	Discretionary – Contestable Customer Representative	
Andrew Sutherland	Discretionary – Generator	
Shane Cremin	Discretionary – Generator	
Ben Tan	Discretionary – Generator	
Wana Yang	Observer – ERA	
Paul Biggs	Small Use Customer Representative	
Apologies	**Class**	**Comment**
Ken Brown	Compulsory – System Management	
Peter Mattner	Compulsory – Network Operator	
Andrew Everett	Compulsory – Generator	
Nerea Ugarte	Minister's appointee	
Also in attendance	**From**	**Comment**
Jenny Laidlaw	IMO	Minutes
Zoë Davies	IMO	Presenter
Greg Ruthven	IMO	Presenter
Bruce Cossill	IMO	Presenter
Matt Schultz	Energy Response	Observer
Fiona Edmonds	IMO	Observer
Alasdair Macdonald	IMO	Observer
Douglas Birnie	IMO	Observer (via teleconference 2.00-3.20pm)

<table>
<tr><th>Item</th><th>Subject</th><th>Action</th></tr>
<tr><td>1.</td><td>WELCOME

The Chair opened the meeting at 2.00 pm and welcomed members to the 39th meeting of the Market Advisory Committee (MAC).</td><td></td></tr>
<tr><td>2.</td><td>MEETING APOLOGIES / ATTENDANCE

Apologies were received from:

• Ken Brown
• Andrew Everett
• Peter Mattner
• Nerea Ugarte

The following other attendees were noted:

• Brendan Clarke (Proxy for Ken Brown)
• Brad Huppatz (Proxy for Andrew Everett)
• Neil Gibbney (Proxy for Peter Mattner)
• Zoë Davies (Presenter)
• Greg Ruthven (Presenter)
• Bruce Cossill (Presenter)
• Matt Schultz (Observer)
• Fiona Edmonds (Observer)
• Douglas Birnie (Observer, via teleconference)
• Alasdair Macdonald (Observer)</td><td></td></tr>
<tr><td>3.</td><td>MINUTES OF PREVIOUS MEETING

The minutes of MAC Meeting No. 38, held on 11 May 2011, were circulated prior to the meeting.

The following amendments were agreed.

Page 7: Section 7b: Penetration of DSM in Reserve Capacity Procurement [CP_2011_02]

• “The Chair questioned whether the methodology for the calculations under clause 4.5.12 has changed. Mr Ruthven replied that the same methodology had been used for the previous two years. Mr Brown considered that no other power system would permit a level of DSM penetration greater ~~that~~ than 10 percent.

…

Mr Clarke clarified that the issue was not around a limit on DSM but on the minimum capacity that needed to be provided by generation. Mr Zammit noted that the discussion had been mainly about the level of DSM reserve capacity, and questioned whether this level would still be ~~the case~~ the same if there was additional (faster acting) DSM capacity available that could help keep frequency ...”

Action Point: The IMO to amend the minutes of Meeting No. 38 to reflect the points raised by the MAC and publish on the website as final.</td><td>IMO</td></tr>
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Item	Subject	Action
4.	**ACTIONS ARISING** Mr Alasdair Macdonald suggested that the outstanding action items be taken as read as they were self-explanatory.	
5a	**MARKET RULE CHANGE OVERVIEW** The Chair noted that 13 Rule Change Proposals were currently in progress and no issues were added or subtracted during the previous month. In response to a question from the Chair, Ms Jenny Laidlaw advised that the Market Development team was working on a Minor and Typographical Rule Change Proposal and expected to submit this proposal into the formal process before the next MAC meeting. The Chair noted the substantial size of some of the Rule Change Proposals currently under consideration. The Chair advised MAC members that the IMO Board was due to be briefed on the Rule Change Proposal: Curtailable Loads and Demand Side Programmes (RC_2010_29) on 10 June 2011, and on the two Rule Change Proposals regarding Calculation of the Capacity Value of Intermittent Generation (RC_2010_25 and RC_2010_37) on 16 June 2011. The MAC noted the Market Rule Change Overview.	
5b	**ANCILLARY SERVICES PAYMENT EQUATIONS [PRC_2010_27]** Ms Jenny Laidlaw noted that the IMO had made a number of changes to the Pre Rule Change Discussion Paper: Ancillary Services Payment Equations (PRC_2010_27) since it was last presented at the March 2011 MAC meeting. The changes included: • removal of the proposed changes to the availability cost calculations for Load Following and Spinning Reserve; • separate allocation of Load Following Ancillary Services (LFAS) costs for Peak and Off-Peak periods, to address concerns raised originally by Verve Energy around the treatment of solar facilities; • new provisions to allow Intermittent Generators with a negligible impact on the Load Following requirement to seek an exemption from funding LFAS, similar to the existing exemption option available for Spinning Reserve costs; and • simplification of the sourcing of the parameters FKR (Frequency Keeping Requirement) and FKR_Loads (Frequency Keeping Requirement for load fluctuations only). Ms Laidlaw noted that the IMO intended to proceed with the formal submission of PRC_2010_27 into the rule change process. However, the IMO had identified that although the cost calculation components of the proposal had been removed, there was still a drafting overlap with the current Market Evolution Program (MEP) proposal for the introduction of a competitive balancing and LFAS market. The IMO therefore intended to review and update the drafting of PRC_2010_27 as soon as the drafting for the MEP proposal was available, to ensure the alignment of the two proposals. The IMO would then formally submit PRC_2010_27 as a Rule Change Proposal.	

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	The Chair invited MAC members to discuss the additional amendments made by the IMO since the March 2011 meeting. Mr Stephen MacLean noted that while the IMO's proposal to split LFAS cost allocation into Peak and Off-Peak components was aimed primarily at solar facilities, the operation of these facilities did not fully align with the Peak and Off-Peak periods defined in the WEM. As an example, Mr MacLean noted that a solar facility would not be producing energy at 10 pm. Ms Laidlaw acknowledged that the use of the standard Peak and Off-Peak time division was an approximation, but considered that it provided a reasonable and low cost option to address the concerns raised by Verve Energy. Ms Laidlaw clarified that the Market Rules definition of Peak and Off-Peak periods would be used, where the period from 8 am to 10 pm each day was considered Peak. Mr MacLean noted some inconsistencies in the parameter names used in the proposal, for example the use of the parameter names Capacity_Cost_FKR and GTR_Cost_Share. Mr MacLean suggested that a standard approach be adopted, for example changing the name GTR_Cost_Share to Cost_Share_GTR. Ms Laidlaw agreed it would be worthwhile to review the parameter names to ensure their consistency. In response to a question from Mr MacLean, Ms Laidlaw explained that the Rule Change Proposal: Cost_LR (RC_2010_33) did not include the proposed name changes from "Load Following" and "Spinning Reserve" to "Frequency Keeping" and "Generator Trip Reserve". Further, the Final Rule Change Report for RC_2010_33 had now been published. However, RC_2010_33 included the addition of new clauses that referred to Load Following and Spinning Reserve, and these new clauses would therefore need to be included in the amendments proposed in PRC_2010_27. Mr MacLean suggested that the reference in clause 3.10.1(a) to +/- 30 MW could be removed, as it was unlikely to be relevant to the South West interconnected system (SWIS) in future. Mr Brendan Clarke agreed that this reference was probably superfluous and that the Load Following requirement was unlikely to ever be this low again. Mr MacLean questioned whether clause 3.10.1(b) should refer to the output fluctuations of Scheduled Generators, given the decision not to charge Scheduled Generators for LFAS as their fluctuations were expected to be too small to be of concern. Mr Corey Dykstra responded that although it had been decided not to charge Scheduled Generators for LFAS System Management still needed to account for their expected fluctuations in determining LFAS requirements and so it was appropriate for this reference to remain in clause 3.10.1(b). Mr MacLean also suggested that: • the proposed new clause 3.10.2A be removed, given the IMO's statement (in the table of Minor Issues in section 1 of the proposal) that "the maximum load ramp is very likely to be covered by the Load	

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	Following definition”; • the abbreviation for System Restart Service be changed from “BS” to “SR” (for example in clause 9.9.3B); and • the end of the definition of Frequency Keeping be changed from “so as to …” to “designed to maintain system frequency at 50 Hz”. Mr MacLean offered to send an email summarising his suggested amendments to the IMO for consideration. *Action Point: Mr Stephen MacLean to email the IMO a summary of suggested amendments to the Pre Rule Change Discussion Paper: Ancillary Services Payment Equations (PRC_2010_27).* *Action Point: The IMO to consider the suggested amendments to the Pre Rule Change Discussion Paper: Ancillary Services Payment Equations (PRC_2010_27) provided by Mr Stephen MacLean, and update the proposal as appropriate.* Mr Michael Zammit questioned whether the reference to “within a Trading Interval” in the definition of Frequency Keeping was correct. Mr Clarke noted the differences between Frequency Keeping and balancing, but agreed that the phrase could be removed from the definition if it was causing confusion. Mr Matt Schultz suggested that LFAS costs could be allocated to Intermittent Generators in proportion to their individual variability, rather than in proportion to their energy output. Mr Dykstra replied that this issue had been discussed previously by the Renewable Energy Generation Working Group (REGWG), and that there had been a decision to adopt a portfolio approach for reasons of practicality. Mr Shane Cremin noted that he still considered the proposed allocation methodology to be very unsophisticated. Mr Cremin noted the outcome of a study in New Zealand last year on the LFAS cost allocation process, where most respondents opposed any changes until a competitive market was in place. This study also identified that a few “noisy” loads were responsible for a large proportion of LFAS costs. Mr Cremin also noted that a recent study in Texas had proposed some more sophisticated options, where costs were still passed through but where Intermittent Generators could avoid costs by the implementation of additional technologies. Mr Cremin considered that PRC_2010_27 failed to incentivise Intermittent Generators to reduce their individual LFAS requirement, and so will entrench an inefficiency in the market. Mr Schultz suggested applying different proportions to different generator types, for example X% for solar, Y% for wind, etc. Mr Dykstra considered that the entry of Intermittent Generators into the market was driven by Government policy and that the costs would eventually be borne by loads. Mr Dykstra considered that the proposal would not change the economic outcomes. The Chair disagreed with Mr Dykstra that this would necessarily be the case.	 **Mr MacLean** **IMO**

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	Mr Dykstra considered that the changes made to PRC_2010_27 since its last presentation to the MAC constituted a step in the right direction, but noted his main concern was that participants with existing investments in Intermittent Generators were unable to respond to the price signals being put into place. Mr Dykstra submitted that there needed to be a transition from the current regime to the future state, so existing facilities are not penalised but new facilities are aware of what is coming. Mr MacLean considered that changing the Market Rules could send a message to future investors that the market will not protect their investments in future. The Chair noted that while there may be an argument for transitional arrangements around the allocation of Reserve Capacity to Intermittent Generators, there needs to be a strong financial incentive to Intermittent Generators to manage their LFAS requirements. The Chair considered that there should be a strong correlation between the assets that impose Load Following requirements and the Load Following requirement itself, and that this needs to be explored over time. The Chair acknowledged that the proposed approach was relatively unsophisticated but noted that the current methodology for determining the Load Following requirement was also relatively unsophisticated, and that both should become more sophisticated in future. The Chair considered that an efficient wind generator could make changes to its plant to reduce its Load Following requirement. As such, the proposal does send incentives to participants to change their behaviour, blunt as they may be. Mr Cremin agreed that options were available to wind farms to reduce their individual Load Following requirements, but submitted that there would be no incentive for a participant to take any action if all wind farms were considered as part of the same "bucket". There was some discussion about how the proposal could provide incentives to Intermittent Generators to reduce their Load Following requirements and whether there was a need to send similar signals to large Loads. The Chair considered it possible that appropriate price signals could encourage existing wind farm owners to work together and develop a plan to reduce their collective Load Following requirement. Mr Dykstra noted that there could be difficulties in cases where the wind farm in question was not owned by the Market Participant. The Chair responded that at present there is no incentive for wind farms to reduce their Load Following requirements. Mr Brad Huppatz considered that the current situation discriminated against Scheduled Generators, as Intermittent Generators were not seeing the costs of their actions. There was some discussion about the bidirectional tariff for photovoltaic (PV) systems and the impact of these systems on the network. Dr Paul Biggs suggested that alternative renewable generation sources such as geothermal or biomass were more controllable than wind, and it would be good to see generators of these types enter the market. Mr Cremin suggested this was unlikely to happen soon. The Chair considered that correctly allocating the LFAS costs caused by wind farms would	

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	encourage the development of alternative renewable technologies in the WEM. Mr Cremin considered that technologies such as geothermal and solar thermal were ten years away. Mr MacLean considered that wind was a mature renewable technology and would remain the cheapest even with the extra charges proposed by PRC_2010_27. Mr Dykstra noted the connection between PRC_2010_27 and the drafting of the MEP proposal for a competitive LFAS market, and sought clarification of the timing of the MEP proposal drafting. Mr Douglas Birnie expected that the drafting for the LFAS component of the MEP proposal would be included in the detail presented to the Rule Development Implementation Working Group (RDIWG) and MAC in the workshops planned for July 2011. The Chair thanked MAC members for their input into the discussion of PRC_2010_27.	
5c	**AUSTRALIAN FINANCIAL ENTITIES CREDIT RATING [PRC_2011_04]** Ms Zoë Davies provided MAC members with an overview of the IMO's Pre Rule Change Discussion Paper: Financial Entities not required to provide evidence they meet the Acceptable Credit Criteria (PRC_2011_04). Ms Davies noted that the proposal allowed the IMO to include the four major Australian banks in the list of entities (the List) that meet the Acceptable Credit Criteria on a standing basis, due to their superior credit rating. This would reduce the administrative burden on Market Participants by removing the annual requirement to provide the IMO with evidence of credit-worthiness for these entities. There was general support from MAC members for the proposal. Mr MacLean noted his appreciation for the IMO's action on the issue. Mr Ben Tan expressed support for the proposal, but noted that some banks have other concerns about security which perhaps could be addressed as part of PRC_2011_04. Mr Tan noted that banks were obliged to provide guarantees using the forms prescribed by the IMO, which include requirements to be able to make funds available in a very short time frame. Mr Tan noted that one bank had expressed concern about being able to make funds available within the required timeframe and questioned whether it would be able to provide a standard bank guarantee. The Chair offered to discuss the issue with Mr Tan off-line, but noted that in his experience standard bank guarantees are usually conditional, while the IMO's format is designed to be unconditional. The Chair acknowledged that there could be some banking operational issues, given the market's location in Western Australia and the major banks' administrative headquarters being based on the east coast. However, it was very unusual for a market operator not to set its own requirements for bank guarantees. For example, the Australian Energy Market Operator (AEMO) and the Singapore and New Zealand market operators all specify a standard format for bank guarantees.	

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	Mr Tan questioned whether bank guarantees needed to be evergreen in situations where it was clear that the security would be either taken or returned at the end of the year. The Chair considered that a limited period guarantee may be acceptable for Reserve Capacity Security, and offered to discuss this issue further with Mr Tan. *Action Point: The IMO to discuss with Mr Ben Tan his concerns and suggestions around requirements for the provision of bank guarantees to the IMO.* *Action Point: The IMO to submit the proposal: Financial Entities not required to provide evidence they meet the Acceptable Credit Criteria (PRC_2011_04) into the rule change process.*	**IMO/Mr Tan** **IMO**
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. The Chair noted that the IMO had received requests to: • replace Mr Shane Cremin with Mr Andrew Stevens as Griffin Energy's representative on the RDIWG; and • replace Mr Wesley Medrana with Mr Stephen MacLean as Synergy's representative on the System Management Procedure Change and Development Working Group. The MAC agreed to the proposed changes. *Action Point: The IMO to update the IMO website to reflect the replacement of Mr Shane Cremin with Mr Andrew Stevens as a member of the Rules Development Implementation Working Group.* *Action Point: The IMO to replace Mr Wesley Medrana with Mr Stephen MacLean in the membership details contained in the ToR for the System Management Procedure Change and Development Working Group and update the website accordingly.* The Chair noted that Mr Troy Forward had now left the IMO and proposed that his position on the MAC be kept open in the short term. The IMO was considering two strong candidates to replace Mr Forward and hoped to make an announcement within the next few days. In response to a query from Mr Zammit, the Chair confirmed that both candidates were external to the IMO.	**IMO** **IMO**
7b	**MRCPWG UPDATE** Mr Greg Ruthven noted that the next and hopefully final meeting of the MRCPWG was scheduled for 20 June 2011. Mr Ruthven noted that there was an omission in the update sent out with the MAC meeting papers. The paper stated that the MRCPWG had agreed to retain the current methodology with respect to margin M. Mr Ruthven noted that this	

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	agreement was subject to the removal of the Debt Issuance Costs, which are to be included in the Weighted Average Cost of Capital (WACC). Mr Ruthven noted that a draft Procedure Change Proposal will be considered at the next meeting of the Working Group. Mr Ruthven expected that following this review and any resulting updates the proposal would then be presented at the July 2011 MAC meeting before its formal submission into the procedure change process. Mr Huppatz asked whether the inclusion of a Forced Outage refund allowance was still under consideration. Mr Ruthven confirmed that this issue was to be included on the agenda for discussion at the next MRCPWG meeting. Mr Cremin questioned whether any action was proposed to smooth the MRCP over a number of years, noting that this issue had been discussed previously by the MRCPWG. The Chair considered that the question might be worthy of discussion. Mr Ruthven noted that the issue had been discussed in early meetings of the MRCPWG but had not been considered to be strictly within the scope of the Working Group. Mr Ruthven suggested that the issue may fall within the scope of the current review of the Reserve Capacity Mechanism (RCM) by The Lantau Group (Lantau) for the IMO Board. Mr Neil Gibbney did not agree that the issue was out of scope for the MRCPWG. Mr Gibbney stated that he had flagged the issue several times and was waiting for it to be discussed by the Working Group. Mr Dykstra considered that the price volatility was being driven by network costs and these were being smoothed to some extent by the current proposal. Mr Gibbney and Mr MacLean agreed that the issue needed to be discussed by the MRCPWG. Mr Ruthven considered that the original concern had been around the volatility in the clearing price. Mr Ruthven reiterated that the issue might best be covered by the RCM review, but agreed that it could be brought back into the Working Group's discussions. The Chair questioned the time limits applicable to the work of the MRCPWG. Mr Ruthven replied that the IMO is scheduled to publish its Draft Report for the 2014/15 MRCP in October 2011 and so any revisions to the procedure would need to have commenced before that time. The MAC noted the MRCPWG update.	
7c	**RDIWG UPDATE** Mr Birnie noted that the RDIWG had agreed to hold two workshops, on 5 July 2011 and 19 July 2011, to go through the draft rules for the proposed competitive balancing and LFAS market before they are released for formal consultation. Mr Birnie invited MAC members to attend these workshops and also to attend an informal workshop after the next RDIWG meeting on 21 June 2011. The purpose of the informal workshop is to discuss concerns and options around the Planned Outage approval process versus the treatment of Forced Outages.	

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	The Chair noted that the IMO had been working through the issue of Reserve Capacity refunds. Recent modelling for the RDIWG of the proposed dynamic refund mechanism indicated a significant reduction in the refunds that would have been paid over the last three years, due largely to the current oversupply of capacity. However, the Chair noted that as part of its work on the RCM review Lantau recently presented the IMO Board with statistics on the level of bilateral contracting for capacity in the WEM. Lantau advised that the proportion of Reserve Capacity not covered by bilateral agreements has recently increased from approximately 20% to 50%. This suggests (in Lantau's view) a potential risk the regulated price for Reserve Capacity is better than any provider would receive under a bilateral contract, indicating that the regulated price may be overvaluing capacity. The Chair noted that after assessing this information the IMO Board considered that the issue of Reserve Capacity refunds should be dealt with as a part of the RCM review. This approach was discussed at the 31 May 2011 meeting of the RDIWG, where Lantau provided Working Group members with a presentation on its findings and recommendations. The RDIWG accepted the approach proposed by the IMO Board, subject to the proposed removal of the Net STEM Shortfall Refund obligation being progressed. The IMO management team will recommend this approach to the IMO Board at its next meeting on 16 June 2011. This meeting will also include a whiteboard session with Lantau around options for improvements to the RCM. Mr Cremin questioned whether any of the information provided to date by Lantau was available to MAC members. The Chair replied that some graphs had been presented to the RDIWG at its last meeting and these could be distributed to MAC members. *Action Point: The IMO to distribute the Lantau Group's presentation to the 31 May 2011 RDIWG meeting to MAC members.* Mr Clarke questioned whether it was proposed to remove the Net STEM Shortfall Refund in its entirety, noting that one half of the formula related to the requirement on Market Participants to offer their capacity into the STEM. Mr Dykstra considered that the proposal was only to remove the real time component of the refund. The Chair noted that the obligation on Market Participants to bid all their capacity into the STEM is to remain. Mr Andrew Sutherland considered that the Lantau paper did not address the impact of Reserve Capacity refunds on the trading decisions of Market Participants. Mr Sutherland suggested that events in the previous week (where MCAP had exceeded $300) provided a good indication of the illiquidity of the WEM, with Market Participants reluctant to offer capacity into the market for fear of incurring refunds. The Chair considered that this was why the market was moving towards a competitive balancing market and changes to gate closure times. Mr MacLean questioned whether Mr Sutherland had raised these concerns in his discussions with Lantau for the RCM review. The Chair	**IMO**

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	noted that Mr Tom Parkinson and Mr Mike Thomas from Lantau would be in Perth the following week and that he would be happy to provide time for them to meet with Mr Sutherland to discuss his concerns. *Action Point: The IMO to arrange for Mr Andrew Sutherland to meet with representatives from the Lantau group to discuss his concerns about the impact of the Reserve Capacity refund mechanism on trading decisions in the Wholesale Electricity Market.* In response to a question from Mr Tan, the Chair clarified that Lantau had indicated a reduction in the level of contracted capacity from 80% to 50%. The Chair noted that these figures suggested that the regulated Reserve Capacity Price may be too high and the change in bilaterally contracted volumes appears to have happened quickly (over 18 months). Anecdotally Lantau had received the impression from capacity providers that the RCM was considered to be a relatively generous scheme. Mr Huppatz considered it important to be careful that this was not a short term issue. The Chair replied that the IMO Board was keen to take a measured approach and avoid any kneejerk reactions. Mr Huppatz noted that the changes being initiated by the MRCPWG were likely to reduce the Reserve Capacity Price. Mr MacLean questioned whether there was any competitive tension in the market. There was some discussion about the need for a greater discount for uncontracted capacity and the issues affecting the willingness of Market Participants to enter into bilateral contracts for capacity.	**IMO**
8a	**PRUDENTIAL REQUIREMENTS ISSUES PAPER [IP_2011_01]** Mr Bruce Cossill noted that the purpose of the Issues Paper: Prudential Requirements (IP_2011_01) was to bring to the attention of the MAC a number of issues identified by the IMO around the Prudential Requirements Market Rules and Market Procedures. Mr Cossill noted that currently the IMO's Market Operations team undertakes annual reviews of the Credit Limits, and is also required to adjust these Credit Limits and issue Margin Calls where appropriate. The Market Rules in this area are considered ambiguous, complex and difficult to apply in practice. Mr Cossill considered that as the relevant provisions were likely to be used in times of significant stress in the market it seemed appropriate to address the issues identified as soon as possible. Mr Cossill noted that the determination of Credit Limits was the key area of concern. While there are currently accepted methods for calculating these limits the intent of the Market Rules is not clear. The IMO intends to embark on a program to review, clarify and improve the Market Rules and Procedures relating to Prudential Requirements. The Chair noted that the original rules for Prudential Requirements were copied from the NEM. The Chair had asked NEM personnel how they managed to make these rules work satisfactorily and had been advised that they had been unable to do so. The Chair considered that the IMO	

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	has a reasonably robust process which looks at the previous four years of history for each Market Participant but allows for exceptional events such as the recent Varanus Island incident. Mr Cossill noted that the IMO wished to reduce the level of uncertainty created by the current Market Rules. No issues were raised by MAC members in relation to IP_2011_01.	
9a	**CURTAILABLE LOAD DISPATCH FOR NETWORK CONTROL SERVICE (CONCEPT PAPER)** Mr Clarke gave a presentation to MAC members on System Management's Concept Paper: Curtailable Load Dispatch for Network Control Service. A copy of the presentation is available on the IMO website. Mr Clarke noted that the Network Operator must seek local generation and demand side options as alternatives to network investment (e.g. the building of a new transmission line). These services are procured under a Network Control Service (NCS) Contract, which sets out the dispatch requirements to defer network investment (e.g. 3 hours a day during weekdays). These services need to be dispatched when the local demand exceeds the network capability. Mr MacLean noted that a Market Participant providing an NCS using Demand Side Management (DSM) has to apply for Certified Reserve Capacity under the Market Rules. There was some discussion about the reasons for this requirement. Mr Clarke noted that the dispatch of an NCS is performed by System Management under the Market Rules and as advised by the Network Operator. However, currently System Management may only dispatch a Curtailable Load in accordance with its Reserve Capacity Obligation Quantity (RCOQ), which restricts dispatch to 2 days in succession and the Availability Class (24, 48, 72 or 96 hours per year). As such, Mr Clarke considered that the Market Rules restrict the operation of an NCS Contract for DSM. This means that the viability of DSM options for NCS is reduced, as they cannot provide an alternative to network investment, even though a DSM provider may be willing to meet the dispatch requirements. Mr Clarke noted that System Management believes that a rule change is required to give it the ability to dispatch a Curtailable Load in accordance with its NCS Contract, without any RCOQ restrictions. Mr Clarke sought agreement from the MAC that a problem existed and a rule change was required. Mr Schultz questioned whether there was also an issue in relation to Interruptible Loads. Mr Clarke responded that currently Interruptible Loads operated under Ancillary Service Contracts for Spinning Reserve rather than Reserve Capacity Obligations. Mr MacLean questioned whether the ability of DSM providers to meet more stringent NCS Contract requirements suggested that the current	

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	Market Rules are too lenient in terms of the obligations on Curtailable Loads, for example not requiring them to operate three days in a row. The Chair noted he had previously advised DSM providers that the availability requirements for DSM (and in particular the provision of only 24 hours of availability and the 2 day limit on consecutive operation) are under consideration as part of the current RCM review. Mr Zammit noted that Energy Response had contracted 30 MW of load to ensure it met its 23 MW capacity requirement. If a higher level of availability was required then additional load would need to be contracted. For example, to provide 50 MW of DSM for six hours per day on up to three consecutive days could require the contracting of 100 MW of load. Mr Zammit noted that a higher level of availability for an NCS Contract would come at an increased price. Mr Clarke questioned whether System Management should prepare a proposal to amend clause 7.6.10. Ms Laidlaw noted that other clauses in the Market Rules may require amendment to ensure the separation of services provided under an NCS Contract from those provided under the normal Reserve Capacity Obligations. There was general agreement from MAC members to progress with a proposal. Mr MacLean sought assurance that if a load was paid to provide both normal capacity and an NCS the market would get value for its money. The Chair reiterated that the current 24 hour availability limit for DSM is likely to change. Mr Dykstra considered that there were two ways to deal with the issue; either to change the requirements for DSM capacity, or else recognise that it is different from generation and adjust the payments accordingly. *Action Point: The IMO and System Management to discuss the next steps in developing a Rule Change Proposal to give System Management the ability to dispatch a Network Control Service provided by Demand Side Management without restrictions caused by the Facility's Reserve Capacity Obligation Quantity.*	**IMO/ System Mgmt**
9	**GENERAL BUSINESS** The Chair noted that Mr Peter Mattner had asked him to raise the subject of the recently published 2011/12 Loss Factors with MAC members. The Chair asked whether participants had been notified of the new values. Mr Dykstra and Mr MacLean both noted that they had seen an email about the new Loss Factors but had not yet examined its contents. The Chair invited any comments from MAC members on the new Loss Factors but none were offered. The Chair congratulated Western Power on its early provision of the Loss Factors this year. Mr Peter Huxtable recalled that in the past a commentary was provided with the Loss Factors each year. The Chair offered to investigate whether such a commentary was available for the 2011/12 Loss Factors. *Action Point: The IMO to determine whether a commentary report for the 2011/12 Loss Factors was available and ensure that it is made available*	**IMO**

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	to Market Participants.	
11	**NEXT MEETING** Meeting No. 40 will be held on Wednesday 13 July 2011. Mr Zammit, Mr MacLean and Ms Wana Yang advised that they would be unable to attend this meeting and nominated Mr Schultz, Mr John Rhodes and Mr Chris Brown respectively as their proxies.	
CLOSED: The Chair declared the meeting closed at 3.50 pm.		