Market Advisory Committee

Agenda

Meeting No.	40
Location:	IMO Board Room Level 3, Governor Stirling Tower, 197 St Georges Terrace, Perth
Date:	Wednesday 13 July 2011
Time:	2.00 – 5.00pm

Item	Subject	Responsible	Time
1.	**WELCOME**	**Chair**	2 min
2.	**MEETING APOLOGIES / ATTENDANCE**	**Chair**	2 min
3.	**MINUTES OF PREVIOUS MEETING** (pg 3 of 49)	**Chair**	10 min
4.	**ACTIONS ARISING** (pg 17 of 49)	**Chair**	10 min
5.	**MARKET RULES**		
	a) Market Rule Change Overview (pg 20 of 49)	**IMO**	2 min
	b) PRC_2011_07: Calculation of Net-STEM Shortfall for Scheduled Generators (pg 24 of 49)	**Alinta**	20 min
	c) PRC_2011_08: Curtailable Load Dispatch for Network Control Services (pg 37 of 49)	**SM**	20 min
6.	**MARKET PROCEDURES**		
	a) Overview (pg 41 of 49)	**IMO**	5 min
7.	**WORKING GROUPS**		
	a) Overview and membership updates (pg 46 of 49)	**IMO**	2 min
	b) MRCPWG Update (pg 47 of 49)	**IMO**	10 min
	c) RDIWG Update (pg 49 of 49)	**IMO**	10 min

Item	Subject	Responsible	Time
8.	**GENERAL BUSINESS**		
9.	**NEXT MEETING: 10 August 2011 (2.00 – 5.00pm)**		

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)

Item	Subject	Action
1.	**WELCOME** The Chair opened the meeting at 2.00 pm and welcomed members to the 39th meeting of the Market Advisory Committee (MAC).	
2.	**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)	
3.	**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.*	**IMO**

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.	

Item	Subject	Action
	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.		

Agenda item 4: 2010/11 MAC Action Points

Legend:

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

#	Year	Action	Responsibility	Meeting arising	Status/Progress
25	2011	System Management to develop a Rule Change Proposal to clarify that for the purpose of issuing Dispatch Instructions System Management must consider Curtailable Loads to be facilities using liquid fuel.	System Management	May	Completed. Rule Change Proposal RC_2011_05: Curtailable Load Dispatch Clarification was submitted on 9 June 2011.
26	2011	System Management to provide MAC members with additional information around the levels of Demand Side Management penetration allowed in other electricity markets.	System Management	May	Completed
27	2011	The IMO to work with System Management to investigate System Management's concerns regarding the methodology used by the IMO for Availability Curve calculations under clause 4.5.12 of the Market	System Management	May	In progress. Final wrap-up meeting pending.

#	Year	Action	Responsibility	Meeting arising	Status/Progress
		Rules, prior to the publication of the 2011 Statement of Opportunities.			
28	2011	The IMO to replace Mrs Jacinda Papps with Mr Alasdair Macdonald in the membership details contained in the ToR for both the IMO and System Management Procedure Change and Development Working Groups and update the website accordingly.	IMO	May	Completed
29	2011	The IMO to update the IMO website to reflect the replacement of Mr Chris Brown with Ms Wana Yang as a member of the Rules Development Implementation Working Group.	IMO	May	Completed
30	2011	ERM Power to meet with the IMO to discuss its concerns around the Rule Change Proposal: Certification of Reserve Capacity (RC_2010_14).	IMO	May	Completed
31	2011	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.	IMO	June	Completed
32	2011	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).	Synergy	June	Completed
33	2011	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.	IMO	June	In progress.
34	2011	The IMO to discuss with Mr Ben Tan his concerns and suggestions around requirements for the provision of bank guarantees to the IMO.	IMO/Tesla Corporation	June	Completed. The IMO will review its standard bank guarantee forms to: • remove the evergreen requirement for Reserve Capacity Security; and • consider whether timeframes

#	Year	Action	Responsibility	Meeting arising	Status/Progress
					for the provision of funds should be modified to account for banks with head offices on the east coast.
35	2011	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	June	Completed
36	2011	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.	IMO	June	Completed
37	2011	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.	IMO	June	Completed
38	2011	The IMO to distribute the Lantau Group's presentation to the 31 May 2011 RDIWG meeting to MAC members.	IMO	June	Completed
39	2011	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/SM	June	Completed. Pre Rule Change Discussion Paper: Curtailable Load Dispatch for Network Control Services (PRC_2011_08) is in the papers for today's meeting.
40	2011	The IMO to determine whether a commentary report for the 2011/12 Loss Factors was available and ensure that it is made available to Market Participants.	IMO	June	Completed. Western Power's 2011/12 Loss Factor Report was published with the associated loss factors and is available on the IMO website

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)	6 July 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)	5
Standard Rule Changes with 2nd Submission Period Open	0
Standard Rule Changes with 2nd Submission Period Closed (final report being prepared)	3
Rule Changes - Awaiting Minister's Approval and/or Commencement	3
Total Rule Changes Currently in Progress	**13**

Potential changes logged by the IMO- Not yet formally submitted	May	June
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	23 (+1/-0)
Low Priority (may be submitted in the next 12/18 months)	20	20 (+0/-0)
Potential Rule Changes (H, M and L)	**42**	**43**
Minor and typographical (submitted in three batches per year)	41	55 (+14)
Total Potential Rule Changes	**82**	**98**

The changes in the rule change and issues log from June to July have arisen from:

Priority	Issue
High	N/a
Medium	**In:** • DSM availability under early entry – If a DSP enters before the start of the Capacity Year for which it has been assigned Certified Reserve Capacity it is uncertain what its hours of availability will be until the start of the relevant Capacity Year. It is also unclear what the testing requirements should be for early entry DSPs given that its Relevant Demand will change at the start of the relevant Capacity Year. **Out:** • No issues have been progressed this month.
Low	**In:** • No issues have been added to the log this month. **Out:** • No issues have been progressed this month.

APPENDIX 1: FORMALLY SUBMITTED RULE CHANGES (Current as of 6 July 2011)

Standard Rule Change with First Submission Period Open

ID	Date submitted	Title	Submitter	Next Step	Date
RC_2011_04	13/06/2011	List of Entities Meeting the Acceptable Credit Criteria	IMO	Submissions close	25/07/2011
RC_2011_05	09/06/2011	Curtailable Load Dispatch Clarification	System Management	Submissions close	27/07/2011

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	27/07/2011
RC_2010_28	01/03/2011	Capacity Credit Cancellation	IMO	Publish Draft Rule Change Report	26/07/2011
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	27/07/2011
RC_2011_02	10/03/2011	Reassessment of Allowable Revenue during a Review Period	ERA	Publish Draft Rule Change Report	26/09/2011

Standard Rule Change with Second Submission Period Closed

ID	Date submitted	Title	Submitter	Next Step	Date
RC_2010_12	07/11/2010	Required Level and Reserve Capacity Security	IMO	Publish Final Rule Change Report	22/07/2011
RC_2010_22	18/11/2010	Partial Commissioning of Intermittent Generators	IMO	Publish Final Rule Change Report	22/07/2011
RC_2010_31	18/03/2011	De-registration of Rule Participants who no longer meet registration requirements	IMO	Publish Final Rule Change Report	28/07/2011

Rule Changes Awaiting Commencement/Ministerial Approval

ID	Date submitted	Title	Submitter	Next Step	Date
RC_2010_14	06/12/2010	Certification of Reserve Capacity	IMO	Commencement	08/07/2011
RC_2010_29	02/12/2010	Curtailable Loads and Demand Side Programmes	IMO	Commencement	01/10/2011
RC_2010_33	17/12/2010	Cost_LR	Verve Energy	Commencement	01/11/2011

Wholesale Electricity Market
Pre Rule Change Discussion Paper

PRC_2011_07 Calculation of Net-STEM Shortfall for Scheduled Generators

Change Proposal No: *PRC_2011_07*
Received date: *TBA*

Change requested by:

Name:	Corey Dykstra
Phone:	9486 3749
Fax:	9221 9128
Email:	corey.dykstra@alinta.net.au
Organisation:	Alinta Sales Pty Ltd
Address:	Level 9, 12-14 The Esplanade, PERTH WA 6000
Date submitted:	
Urgency:	1 - High
Change Proposal title:	Calculation of Net-STEM Shortfall for Scheduled Generators
Market Rule(s) affected:	4.26.2 and 4.26.2B

Introduction

Market Rule 2.5.1 of the Wholesale Electricity Market Rules provides that any person (including the IMO) may make a Rule Change Proposal by completing a Rule Change Proposal Form that must be submitted to the Independent Market Operator.

This Change Proposal can be posted, faxed or emailed to:

Independent Market Operator
Attn: Manager Market Development and System Capacity
PO Box 7096
Cloisters Square, Perth, WA 6850
Fax: (08) 9254 4339
Email: market.development@imowa.com.au

The Independent Market Operator will assess the proposal and, within 5 Business Days of receiving this Rule Change Proposal form, will notify you whether the Rule Change Proposal will be further progressed.

In order for the proposal to be progressed, all fields below must be completed and the change proposal must explain how it will enable the Market Rules to better contribute to the achievement of the wholesale electricity 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.

Details of the proposed Market Rule Change

1. Describe the concern with the existing Market Rules that is to be addressed by the proposed Market Rule change:

Background

Clause 4.26.1A of the Market Rules requires that the Independent Market Operator (IMO) calculate a Forced Outage refund for each Facility ("Facility Forced Outage Refund"), whereas the IMO must also determine whether there arises a "Net STEM Shortfall" under clause 4.26.2 and hence a Capacity Cost Refund under clause 4.26.2E.[1]

Currently, if a Market Participant operates a single Scheduled Generator and that generator suffers a Forced Outage, the Market Participant is exposed to a Facility Forced Outage Refund calculated under clause 4.26.1A. The specification of the Net STEM Shortfall calculation in clause 4.26.2 ensures that the Market Participant does not also incur a Net STEM Shortfall Refund for the same Forced Outage.

However, where a Market Participant operates more than one Scheduled Generator and one of its generators suffers a Forced Outage, the Market Participant will be exposed to both:

- a Facility Forced Outage Refund calculated under clause 4.26.1A; and

[1] Clause 4.26.1A (and other clauses)will be amended from 1 October 2011 by RC_2010_29 to change references to "Forced Outage Refund" to "Facility Reserve Capacity Deficit Refund".

- a Capacity Cost Refund under clause 4.26.2E as a Net STEM Shortfall will also arise under clause 4.26.2 in respect of the same Forced Outage,

  in circumstances where at least one Scheduled Generator has not been dispatched.

That is, for a Market Participant operating more than one Scheduled Generator, the cost of a Forced Outage in respect of a specific generator is **up to twice** that which would be incurred had the same generator been the only Scheduled Generator registered to that Market Participant.[2]

A worked example is provided in the attachment.

RC_2010_03

This issue identified above is essentially the same as that rectified by the amendments to the Market Rules resulting from RC_2010_03.

In RC_2010_03, the IMO identified that where a Market Participant has multiple generators in its portfolio and one (or more) suffers a real-time Forced Outage then the expected energy supplied in real-time from the portfolio is reduced to reflect just the Forced Outage.

However, the IMO also noted that this adjustment was applied relative to the portfolio's total Reserve Capacity Obligation Quantity, including Scheduled Generators, Curtailable Loads and Interruptible Loads that were **not dispatched**. As a result, the IMO noted that the Market Participant would be exposed to a Net STEM shortfall purely because some of its facilities were not asked to supply energy or loads requested to reduce consumption.

RC_2010_03 was subject to the Fast Track Rule Change Process as the IMO considered that the proposed amendments were required to correct a manifest error, including to remove a potential anomaly in determining the Net STEM Shortfall.

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2. Explain the reason for the degree of urgency:

Alinta requests that this Rule Change Proposal, and the proposed specific changes to clauses outlined in the following section, be subject to the Fast Track Rule Change Process in accordance with clause 2.5.9 of the Market Rules.

Like RC_2010_03, Alinta submits that the Rule Change Proposal should be subject to the Fast Track Rule Change Process as the Rule Change Proposal is required to correct a manifest error.

Alinta notes that the "New Balancing Market" proposal being progressed as part of the Market Evolution Plan (MEP) may result in the Market Rules being amended to remove at least that element of the Net STEM Shortfall calculation in clause 4.26.2 that results in the double penalty to Market Participant operating more than one Scheduled Generator.

[2] The cost of the Forced Outage would be twice that which would be payable by a Market Participant with a single Scheduled Generator where the non-dispatched capacity from another Scheduled Generator (or generators) operated by the Market Participant exceeded the quantum of the Forced Outage.

However, as noted in section 5, the potential cost associated with this manifest error is significant (up to around $1.5 million), while the expected costs are small (perhaps several thousand dollars). The greatest risk, and financial impact, associated with the manifest error arises during the periods of peak system demand (i.e. the summer period commencing 1 December) when multipliers of 6 apply to capacity refunds.

As there is no certainty that the package of rule changes to give effect to the "New Balancing Market" proposal will be implemented prior to 1 December 2011, there is an urgent need to rectify the manifest error through the Fast Track Rule Change Process.

In addition, Alinta notes that System Management raised concerns about the proposed removal of the Net STEM Shortfall calculation at the Rules Development Implementation Working Group meeting on 21 June 2011, which creates further uncertainty around the outcome in respect of this matter.

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3. Provide any proposed specific changes to particular Rules: (for clarity, please use the current wording of the Rules and place a ~~strikethrough~~ where words are deleted and underline words added)

The proposed specific changes to the Market Rules outlined below are restricted to addressing the manifest error in the Market Rules to ensure that a Market Participant operating more than one Scheduled Generator will incur the same cost for a Forced Outage in respect of a specific Scheduled Generator as would be incurred had the same generator been the only Scheduled Generator registered to that Market Participant.

The proposed amending rules do not address any of the other issues identified by RC_2010_03 in respect of the Net STEM Shortfall calculation, including in respect of Intermittent Generators (of which there are none) or Dispatchable Loads.

4.26.2. The IMO must determine the net STEM shortfall ("**Net STEM Shortfall**") in Reserve Capacity supplied by each Market Participant p holding Capacity Credits associated with a generation system in each Trading Interval t of Trading Day d and Trading Month m as:

$$SF(p,m,d,t) = Max(RTFO(p,d,t), RCOQ(p,d,t) - A(p,d,t)) + \underline{Sum(f \in F,} \; Max(0, B(\sout{p} \; \underline{f},d,t) - C(\sout{p} \; \underline{f},d,t) \;) \underline{)} - RTFO(p,d,t)$$

Where

$$A(p,d,t) = Min(RCOQ(p,d,t), CAPA(p,d,t));$$

$$B(\sout{p} \; \underline{f},d,t) = Min(RCOQ(\sout{p} \; \underline{f},d,t) - RTFO(\sout{p} \; \underline{f},d,t), DSQ(\sout{p} \; \underline{f},d,t));$$

$$C(\sout{p} \; \underline{f},d,t) = Min(DSQ(\sout{p} \; \underline{f},d,t), MSQ(\sout{p} \; \underline{f},d,t));$$

RCOQ(p,d,t) for Market Participant p and Trading Interval t of Trading Day d is equal to:

(a) the total Reserve Capacity Obligation Quantity of Market Participant p's unregistered facilities that have Reserve Capacity Obligations, excluding Loads that can be interrupted on request, plus

(b) the sum of the product of:

i. the factor described in clause 4.26.2B as it applies to Market Participant p's Registered Facilities; and

ii. the Reserve Capacity Obligation Quantity for each Facility

for all Market Participant p's Registered Facilities, excluding Curtailable Loads;

RCOQ (f,d,t) for Facility f and Trading Interval t of Trading Day d is equal to the product of the factor described in clause 4.26.2B as it applies to Facility f and the Reserve Capacity Obligation Quantity for Facility f.

CAPA(p,d,t) is for Market Participant p and Trading Interval t of Trading Day d:

(c) equal to RCOQ(p,d,t) for a Trading Interval where the STEM auction has been suspended by the IMO in accordance with clause 6.10;

(d) subject to paragraph (c), for the case where Market Participant p is not the Electricity Generation Corporation, the sum of:

i. the sum of the Reserve Capacity Obligation Quantities in Trading Interval t of that Market Participant's Interruptible Loads; plus

ii. the MW quantity calculated by doubling the net MWh quantity of energy sent out by Facilities registered by that Market Participant during that Trading Interval calculated as the Net Contract Position less the shortfall as indicated by the applicable Resource Plan; plus

iiA if a STEM submission does not exist for that Trading Interval, the MW quantity calculated by doubling the total MWh quantity of energy to be consumed by that Market Participant including demand associated with any Curtailable Load or Interruptible Load, but excluding demand associated with any Dispatchable Load during that Trading Interval as indicated by the applicable Resource Plan; plus

iii. the MW quantity calculated by doubling the total MWh quantity covered by the STEM Offers which were not

scheduled and the STEM Bids which were scheduled in the relevant STEM Auction, determined by the IMO for that Market Participant under clause 6.9 for Trading Interval t, corrected for Loss Factor adjustments so as to be a sent out quantity in accordance with clause 4.26.2A; plus

iv. double the total MWh quantity to be provided as Ancillary Services as specified by the IMO in accordance with clause 6.3A.2(e)(i) for that Market Participant corrected for Loss Factor adjustments so as to be a sent out quantity in accordance with clause 4.26.2A; plus

v. the greater of zero and (BSFO(p,d,t) – RTFO(p,d,t)); and

(e) subject to paragraph (c), for the case where Market Participant p is the Electricity Generation Corporation, the sum of:

i the sum of the Reserve Capacity Obligation Quantities in Trading Interval t of that Market Participant's Interruptible Loads; plus

ii the MW quantity calculated by doubling the total MWh quantity of the Net Contract Position quantity of that Market Participant for Trading Interval t, corrected for Loss Factor adjustments so as to be a sent out quantity in accordance with clause 4.26.2A; plus

iii the MW quantity calculated by doubling the total MWh quantity of the STEM Offers which were not scheduled and the STEM Bids which were scheduled in the relevant STEM Auction, determined by the IMO for that Market Participant under clause 6.9 for Trading Interval t, corrected for Loss Factor adjustments so as to be a sent out quantity in accordance with clause 4.26.2A; plus

iv. double the total MWh quantity to be provided as Ancillary Services as specified by the IMO in accordance with clause 6.3A.2(e)(i) for the Electricity Generation Corporation corrected for Loss Factor adjustments so as to be a sent out quantity in accordance with clause 4.26.2A; plus

v. the greater of zero and (BSFO(p,d,t) – RTFO(p,d,t)).

BSFO(p,d,t) is the total MW quantity of Forced Outage associated with Market Participant p before the STEM Auction for Trading Interval t of Trading Day d, where this is the sum over all the Market Participant's Registered Facilities of the lesser of the Reserve Capacity Obligation Quantity of the Facility for Trading Interval t and the MW Forced Outage of the Facility for Trading Interval t as provided to the IMO by System Management in accordance with clause 7.3;

RTFO(p,d,t) is the total MW quantity of Forced Outage associated with Market Participant p in real-time for Trading Interval t of Trading Day d, where this is the sum over all the Market Participant's Registered Facilities of the lesser of the Reserve Capacity Obligation Quantity of the Facility for Trading Interval t and the MW Forced Outage of the Facility for Trading Interval t as provided to the IMO by System Management in accordance with clause 7.13.1A (b);

RTFO(f,d,t) is the total MW quantity of Forced Outage associated with Facility f in real-time for Trading Interval t of Trading Day d, where this is the lesser of the Reserve Capacity Obligation Quantity of the Facility f for Trading Interval t and the MW Forced Outage of the Facility f for Trading Interval t as provided to the IMO by System Management in accordance with clause 7.13.1A (b);

DSQ(~~p~~ f,d,t) is a MW quantity calculated by doubling the MWh value of ~~sum over all of the Facilities registered by Market Participant p of each~~ Facility f's Dispatch Schedule for Trading Interval t of Trading Day d;

MSQ(~~p~~ f,d,t) is a MW quantity calculated by doubling the greater of zero and the MWh value of ~~sum over all of the Facilities registered by Market Participant p of the greater of zero and~~ Facility f's Metered Schedule for Trading Interval t of Trading Day d, corrected for Loss Factor adjustments applicable to that Facility so as to be a sent out quantity;

F denotes the set of Scheduled Generators registered by Market Participant p, where "f" is used to refer to a member of that set.

4.26.2A. All values in clause 4.26.2 which are required to be corrected for Loss Factor adjustments so as to be a sent out quantity are to be adjusted based on an assumed Loss Factor of 1.

4.26.2B. The IMO is to set the factor described in the definition of RCOQ(p,d,t) and RCOQ(f,d,t) in clause 4.26.2 to equal one in all situations except for Scheduled Generators, Non-Scheduled Generators and Dispatchable Loads with Loss Factors less than one in which event the factor must equal the facilities Loss Factor.

4. Describe how the proposed Market Rule change would allow the Market Rules to better address the Wholesale Market Objectives:

Market Rule 2.4.2 states that the IMO must not make Amending Rules unless it is satisfied that the Market Rules, as proposed to be amended or replaced, are consistent with 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.

The Rule Change Proposal would ensure that for a Market Participant operating more than one Scheduled Generator, the cost of a Forced Outage in respect of a specific Scheduled Generator would be the same as that which would be incurred had the same generator been the only Scheduled Generator registered to that Market Participant.

Consequently, Alinta considers that the Market Rules as proposed to be amended or replaced by the Rule Change Proposal, would be consistent with, and better achieve, the Wholesale Market Objectives. Specifically, Alinta considers that the Rule Change Proposal would:

- better promote the economically efficient, safe and reliable production supply of electricity and electricity related services in the South West Interconnected System (objective (a)).
- better encourage competition among generators and retailers in the South West interconnected system (objective (b)).
- avoids discrimination against a portfolio generator and therefore better achieves objective (c).
- likely to further minimise the long term costs of electricity supplied to customers from the South West interconnected system (objective (d)).

5. Provide any identifiable costs and benefits of the change:

For Market Participants operating more than one Scheduled Generator, the cost of a Forced Outage in respect of a specific generator is **up to twice** that which would be incurred had the same generator been the only Scheduled Generator registered to that Market Participant.

As with RC_2010_03, the main benefit of the proposed Amending Rules will be to restore market price signals to their correct levels.

As a Market Participant operating more than one Scheduled Generator, Alinta estimates that the potential additional cost it might incur in respect of Forced Outages could be up to $1.5 million per annum. This estimate reflects:

- a Forced Outage rate of 0.73% (consistent with the estimate provided by the IMO to the Maximum Reserve Capacity Working Group);
- the Reserve Capacity Price for the 2011/12 year ($131,804), and
- a refund multiplier of 6 times, which would apply where a Forced Outage occurs during a Peak Interval during summer.

Costs would be incurred by the IMO, and therefore the Market as a whole, in updating the current settlement functions of the IMO. Alinta is unable to quantify these costs precisely, but notes that for RC_2010_03 the IMO estimated that the costs it would incur in updating the settlement function was $3,525.

It is expected that the "New Balancing Market" proposal being progressed as part of the MEP would ultimately result in the Market Rules being amended to remove at least that element of the Net STEM Shortfall calculation in clause 4.26.2 that results in the double penalty to Market Participant operating more than one Scheduled Generator. However, as noted earlier, there remains some uncertainty about this outcome.

Further, given the significant potential risk and cost that arises from this manifest error, Alinta considers that the benefits, including those to the broader market, of proceeding with this Rule Change Proposal significantly exceed any costs.

Scenario 1

Single Scheduled Generator (130 MW) with a Resource Plan (DSQ) that does not meet the dispatch and does not log a forced outage.

Under the existing and proposed changes, a shortfall of 130 MW is calculated.

	EXISTING Net STEM Shortfall	
	RTFO (p,d,t)	**0**
	CAPA	**750**
	RCOQ (p,d,t)	**130**
A = Min(RCOQ, CAPA)	**A**	**130**
	RCOQ(p,d,t) – RTFO(p,d,t)	**130**
	DSQ(p,d,t)	**130**
B = Min(RCOQ–RTFO, DSQ)	**B**	**130**
	MSQ(p,d,t)	**0**
	DSQ(p,d,t)	**130**
C = Min(DSQ, MSQ)	**C**	**0**
	SF	**130**
	PROPOSED Net STEM Shortfall	
	RTFO (p,d,t)	**0**
	CAPA	**750**
	RCOQ (p,d,t)	**130**
A = Min(RCOQ, CAPA)	**A**	**130**
	RCOQ(f,d,t) – RTFO(f,d,t)	
	DSQ(f,d,t)	
B = Min(RCOQ–RTFO, DSQ)	**B**	
	MSQ(f,d,t)	
	DSQ(f,d,t)	
C = Min(DSQ, MSQ)	**C**	
	Max(0, B – C)	
	∑ Scheduled Generators	**130**
	SF	**130**

Scenario 2

Single Scheduled Generator (130 MW) with a DSQ that does not meet the dispatch, and where a forced outage is logged.

Under the existing and proposed changes, no shortfall is calculated as the refund will be applied at the facility level.

	EXISTING Net STEM Shortfall	
	RTFO (p,d,t)	**130**
	CAPA	**750**
	RCOQ (p,d,t)	**130**
A = Min(RCOQ, CAPA)	**A**	**130**
	RCOQ(p,d,t) – RTFO(p,d,t)	**0**
	DSQ(p,d,t)	**130**
B = Min(RCOQ–RTFO, DSQ)	**B**	**0**
	MSQ(p,d,t)	**0**
	DSQ(p,d,t)	**130**
C = Min(DSQ, MSQ)	**C**	**0**
	SF	**0**
	PROPOSED Net STEM Shortfall	
	RTFO (p,d,t)	**130**
	CAPA	**750**
	RCOQ (p,d,t)	**130**
A = Min(RCOQ, CAPA)	**A**	**130**
	RCOQ(f,d,t) – RTFO(f,d,t)	
	DSQ(f,d,t)	
B = Min(RCOQ–RTFO, DSQ)	**B**	
	MSQ(f,d,t)	
	DSQ(f,d,t)	
C = Min(DSQ, MSQ)	**C**	
	Max(0, B – C)	
	∑ Scheduled Generators	**0**
	SF	**0**

Scenario 3

Two Scheduled Generators (130 MW each), one with a DSQ that does not meet the dispatch and does not log a forced outage. The other unit is not required to run.

Under the existing and proposed changes, a shortfall is calculated.

	EXISTING Net STEM Shortfall	
	RTFO (p,d,t)	**0**
	CAPA	**750**
	RCOQ (p,d,t)	**260**
A = Min(RCOQ, CAPA)	**A**	**260**
	RCOQ(p,d,t) – RTFO(p,d,t)	**260**
	DSQ(p,d,t)	**130**
B = Min(RCOQ–RTFO, DSQ)	**B**	**130**
	MSQ(p,d,t)	**0**
	DSQ(p,d,t)	**130**
C = Min(DSQ, MSQ)	**C**	**0**
	SF	**130**
	PROPOSED Net STEM Shortfall	
	RTFO (p,d,t)	**0**
	CAPA	**750**
	RCOQ (p,d,t)	**260**
A = Min(RCOQ, CAPA)	**A**	**260**
	RCOQ(f,d,t) – RTFO(f,d,t)	
	DSQ(f,d,t)	
B = Min(RCOQ–RTFO, DSQ)	**B**	
	MSQ(f,d,t)	
	DSQ(f,d,t)	
C = Min(DSQ, MSQ)	**C**	
	Max(0, B – C)	
	∑ Scheduled Generators	**130**
	SF	**130**

Scenario 4

Two Scheduled Generators (130 MW each), one with a DSQ that does not meet the dispatch, but where forced outage is logged. The other unit is not required to run.

Under the existing rules a shortfall is calculated as well as the Forced Outage refund.

Under the proposed changes no shortfall is calculated as the changes pick up the forced outage of the facility that did not deliver.

	EXISTING Net STEM Shortfall	
	RTFO (p,d,t)	**130**
	CAPA	**750**
	RCOQ (p,d,t)	**260**
A = Min(RCOQ, CAPA)	**A**	**260**
	RCOQ(p,d,t) – RTFO(p,d,t)	**130**
	DSQ(p,d,t)	**130**
B = Min(RCOQ–RTFO, DSQ)	**B**	**130**
	MSQ(p,d,t)	**0**
	DSQ(p,d,t)	**130**
C = Min(DSQ, MSQ)	**C**	**0**
	SF	**130**
	PROPOSED Net STEM Shortfall	
	RTFO (p,d,t)	**130**
	CAPA	**750**
	RCOQ (p,d,t)	**260**
A = Min(RCOQ, CAPA)	**A**	**260**
	RCOQ(f,d,t) – RTFO(f,d,t)	
	DSQ(f,d,t)	
B = Min(RCOQ–RTFO, DSQ)	**B**	
	MSQ(f,d,t)	
	DSQ(f,d,t)	
C = Min(DSQ, MSQ)	**C**	
	Max(0, B – C)	
	∑ Scheduled Generators	**0**
	SF	**0**

Wholesale Electricity Market
Pre Rule Change Proposal

PRC_2011_08 Curtailable Load Dispatch for Network Control Services

Pre-rule Change Discussion Paper No: *PRC_2011_08*
Received date: *TBA*

Submitted by

Name:	Brendan Clarke
Phone:	94275940
Fax:	9427 4228
Email:	Brendan.Clarke@westernpower.com.au
Organisation:	System Management
Address:	
Date submitted:	13 July 2011
Urgency:	3 - High
Change Proposal title:	Curtailable Load Dispatch for Network Control Services
Market Rule(s) affected:	Clause 7.6.10 & 4.12.8

Introduction

This Market Rule Change Proposal can be posted, faxed or emailed to:

Independent Market Operator
Attn: Troy Forward, Manager Market Administration & System Capacity
PO Box 7096
Cloisters Square, Perth, WA 6850

Fax: (08) 9254 4399
Email: marketadmin@imowa.com.au

The paper should explain how it will enable the Market Rules to better contribute to the achievement of the wholesale electricity 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.

Details of the proposed Market Rule Change

1) Outline the issue concerning the existing Market Rules that is to be addressed by the proposed Market Rule change:

This Pre Market Rule Change discussion paper follows on from the concept Paper presented to MAC at it 8 June 2011 meeting.

Issue: The Market Rules limit the dispatch of Curtailable Loads and so limits the effectiveness of alternate options to network investment in Network Control Service Contracts

System Management may dispatch curtailable load facilities under its obligations in Clause 7.6.10.

"7.6.10. Where a Market Participant has Capacity Credits granted in respect of a Curtailable Load:

(a) the IMO must provide System Management with the details of the Reserve Capacity Obligations to enable System Management to dispatch the Curtailable Load.

(b) System Management may issue directions to the Curtailable Load in accordance with the Reserve Capacity Obligations."

The Reserve Capacity Obligations are determined by the particular availability class, being 24, 48, 72 or 96 hours in any year and by Rule 4.12.8 which prevents full dispatch for more than 2 days.

"4.12.8. Where a Curtailable Load is dispatched to a level equal to its Reserve Capacity Obligation Quantity on two consecutive days the Reserve Capacity Obligation Quantity for the following day shall be zero."

System Management may need to issue dispatch instructions to curtailable loads to meet system security in accordance with the dispatch merit order or for network control service contracts.

Network Control Service Contracts generally require unrestricted dispatch, that is for more than 2 consecutive days and more than 24 hours per year. The current rules prevent System Management dispatching curtailable loads for this purpose.

As such System Management believes the Market Rules prevents operation of Network Control Services as agreed between the Curtailable Load Owner and the Network Service Provider.

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2) Explain the reason for the degree of urgency:

System Management submits that the Rule Change Proposal be progressed with an urgency of high.

The change is urgent, to address the anticipated need to dispatch Network Control Services during the summer of 2011/12. The dispatch of curtailable loads should not be restricted for this period.

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3) Provide any proposed specific changes to particular Rules (for clarity, please use the current wording of the Rules and place a ~~strikethrough~~ where words are deleted and underline words added)

4.12.8 Unless a Curtailable Load has been dispatched under clause 7.6.10 (b) under its Network Control Service Contract, where a Curtailable Load is dispatched to a level equal to its Reserve Capacity Obligation Quantity on two consecutive days the Reserve Capacity Obligation Quantity for the following day shall be zero.

7.6.10. Where a Market Participant has Capacity Credits granted in respect of a Curtailable Load:

(a) the IMO must provide System Management with the details of the Reserve Capacity Obligations to enable System Management to dispatch the Curtailable Load.

(b) System Management may issue directions to the Curtailable Load in accordance with the Reserve Capacity Obligations or in accordance with its Network Control Service Contract.

4) Describe how the proposed Market Rule change would allow the Market Rules to better address the Wholesale Market Objectives:

This proposed Rule Change would better address objective (a) of the Market Objectives. The change as submitted would promote the economically efficient, safe and reliable production and supply of electricity and electricity related services in the South West Interconnected System.

5) Provide any identifiable costs and benefits of the change:

Benefits:

- The changes allow curtailable loads to provide a more economic alternative to network investment

Costs:

- No costs have been anticipated by System Management other than the administrative costs to change the rules.

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

Legend:

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

Change ID	Title	Brief overview of changes	Status	Next Step(s)	Date
IMO Procedure Change Proposals					
PC_2010_03	Monitoring Protocol	The proposed updates are to: • Allow the IMO to disclose the identity of System Management as a participant that notifies us of alleged breaches; and • Update to conform to recently adopted style changes.	• Final Report being prepared	• Final Report to be published	TBA
PC_2010_08	Supplementary Reserve Capacity (SRC)	The proposed new Market Procedure describes the process that the IMO and System Management will follow in: • acquiring Eligible Services, • entering into SRC Contracts; • determining the maximum contract value per hour of availability for any contract; and • Details the information that is required to be exchanged.	• Final Report being prepared	• Final Report to be published	TBA

Change ID	Title	Brief overview of changes	Status	Next Step(s)	Date
		This Market Procedure needs to be published (as required by the Market Rules) and will be revised following any rule changes (if applicable).			
PC_2011_01	Procurement of Network Control Services	RC_2010_11[1] (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.	• Commenced 1 July 2011		
PC_2011_02	Data and IT Interface Requirements	The proposed updates are to: • Reflect the IMO's new format arising from its Market Procedures project; • Include some minor and typographical amendments to improve the integrity of the Market Procedure; • Remove the minimum workstation requirements, specifically outlining just the recommended workstation requirements; • Clarify the internet explorer requirements for different versions of the Market Participant Interface; and • Update the IMO's Access Security section.	• Commenced 1 July 2011		

[1] Refer to www.imowa.com.au/RC_2010_11

Change ID	Title	Brief overview of changes	Status	Next Step(s)	Date
PC_2011_03	Pre-Registration of DSPs and the association of CLs, NDLs and ILs (Transitional Arrangements)	This is a new Market Procedure for Pre-Registration of Demand Side Programmes and the association of CLs, NDLs and ILs is a transitional Market Procedure specifying the processes to the followed by the IMO, System Management and Market Customers between 1 July 2011 and 1 October 2011.	• Commenced 1 July 2011		
PC_2011_04	Prudential Requirements	The proposed updates are to: • Reflect the IMO's new format arising from its Market Procedures project; • Include some minor and typographical amendments to improve the integrity of the Market Procedure; • Include amendments required as a result of two Rule Change Proposals: o RC_2010_11[2] Removal of Network Control Services (NCS) Expression of Interest and Tender Process from the Market Rules; and o RC_2010_36[3] Acceptable Credit Criteria; 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.	• Presented at the 2 February 2011 working group meeting.	• Pending outcomes from RC_2011_04.	TBA

[2] Refer to www.imowa.com.au/RC_2010_11
[3] Refer to www.imowa.com.au/RC_2010_36

Change ID	Title	Brief overview of changes	Status	Next Step(s)	Date
TBD	Undertaking the LT PASA and conducting a review of the Planning Criterion	The proposed updates are to: • Reflect the IMO's new format arising from its Market Procedures project; • Include some minor and typographical amendments to improve the integrity of the Market Procedure, including re-ordering some sections; and • Include both reviews required under clause 4.5.15 of the Market Rules (Planning Criterion and forecasting processes).	• Updating procedure as a result of 2 February 2011 working group meeting.	• Updated procedure to be presented back to working group for further discussion.	TBD
TBD	Reserve Capacity Security	The proposed updates are to: • Reflect the IMO's new format arising from its Market Procedure project; • Reflect the broader heads of power for the Market Procedure; and • Ensure consistency with the proposed Amending Rules under the following Rule Change Proposals that the IMO is currently progressing: o Reserve Capacity Security (RC_2010_12); o Certification of Reserve Capacity (RC_2010_14); o Capacity Credit Cancellation (RC_2010_28); and o Acceptable Credit Criteria (RC_2010_36).	• Presented at the 28 March 2011 working group meeting.	• Formal submission into the Procedure process..	TBA
System Management Procedure Change Proposals					
PPCL0016	Commissioning and Testing	The proposed update is to amend the procedure to reflect the commenced RC_2010_37 'Equipment Tests'.	• Final Report published	• IMO's decision to be published	14 July 2011

Change ID	Title	Brief overview of changes	Status	Next Step(s)	Date
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'.	• Final Report published	• IMO's decision to be published	12 July 2011
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 30 MW.	• Final Report published	• IMO's decision to be published	19 July 2011
PPCL0019	Monitoring and Reporting Protocol	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. The proposed updates will ensure consistency with the requirements of RC_2009_22 and in particular the new clause 2.13.6K.	• Final Report received	• IMO to publish Final Report	7 July 2011

Agenda Item 7a: 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	26/05/2011	TBA
Maximum Reserve Capacity Price WG	Active	May 10	Ongoing	20/06/2011	TBA
Rules Development Implementation WG	Active	Aug 10	Ongoing	19/07/2011	TBA

Agenda Item 7b: MRCPWG Update

1. RECENT PROGRESS

The Maximum Reserve Capacity Price Working Group (MRCPWG) last met on 20 June 2011. At this meeting the MRCPWG:

- agreed there would be no forced outage allowance within the MRCP;
- agreed that the capitalisation period of 15 years would be retained, following the recommendation of PricewaterhouseCoopers (PwC) contained in their report tabled at the meeting[1].

The MRCPWG also considered a draft Procedure Change Proposal and Market Procedure. Out of session comments were called for and comments received have been considered in updating the documents.

No further meetings of the MRCPWG are scheduled. Any further consultation with the MRCPWG is likely to be conducted out of session.

2. FINALISATION OF PROCEDURE CHANGE PROPOSAL

The MRCPWG Terms of Reference require the MRCPWG to "*Develop an integrated suite of solutions, including drafted Procedure Change Proposals to be presented to the MAC by way of presentation/s and supporting discussion papers.*" The Terms of Reference also require a full impact assessment be conducted.

At the last meeting a draft sensitivity analysis was presented showing the impact on the MRCP of agreed changes. This sensitivity analysis will be completed once the impact of the inclusion of inlet cooling in the definition of the Power Station, currently being assessed by Sinclair Knight Merz, is finalised.

In addition, the IMO notes that the determination of a methodology for the Debt Risk Premium (DRP), a component of the Weighted Average Cost of Capital (WACC), has proven more difficult than initially anticipated. The existing methodology, based on a 10-year fair yield curve for BBB-rated corporate bonds as published by Bloomberg, has been unavailable since the Market Procedure commenced in 2008[2]. Since that time, the IMO has determined the DRP through an "*appropriate approximation*" as mandated by the Market Procedure, but this has become increasingly more difficult due to reducing data availability from Bloomberg. Furthermore, there has been little consistency in the determinations of DRP by the various regulatory authorities across Australia in recent years.

At the 24 March 2011 meeting, the ERA presented its Bond-Yield Approach for determining the DRP. The MRCPWG broadly agreed that this method had merit, but noted that it had only been applied in one regulatory decision and was subject to appeal to the Australian Competition Tribunal. The MRCPWG indicated that it would be imprudent to adopt the method until it had been upheld at appeal.

[1] While the MRCPWG generally agreed in relation to both the forced outage allowance and the capitalisation period, one dissenting view was recorded in relation to each issue.

[2] Bloomberg ceased publication of a 10-year fair yield curve for BBB bonds in 2007.

Given the existing uncertainty with respect to the DRP, the MRCPWG indicated its preference to allow the IMO discretion to determine the method for estimating the DRP. The IMO is currently working with the ERA to define the appropriate drafting for the Market Procedure to reflect this intent.

The updated draft Procedure Change Proposal and Market Procedure will be provided to MRCPWG members upon the finalisation of the impact assessment and drafting in relation to the DRP for comments in relation to these matters.

The Procedure Change Proposal and Market Procedure will be presented to the MAC at the August meeting, after which they will be submitted into the Procedure Change Process.

3. RECOMMENDATION

It is recommended that the MAC:

- **Note** this update.

Agenda Item 7c: RDIWG Update

1. UPDATE

The Rules Development Implementation Working Group (RDIWG) met on 21 June. At this meeting the RDIWG received an update on the detailed design of the Balancing and LFAS markets, an update on the Board's decisions in relation to reserve capacity refunds and then held an informal workshop on outage approvals.

2. BALANCING AND LFAS MARKET NEXT STEPS

Following the approval by the IMO Board of the Balancing and Load Following Ancillary Service market arrangements, focus has turned to finalising outstanding design details and commencing rule drafting and system design work. The RDIWG discussed a paper updating the detailed design of the balancing market including pricing, testing and the treatment of DSM.

3. RESERVE CAPACITY REFUNDS

The RDIWG was advised that the IMO Board had endorsed the recommendation of the RDIWG to proceed with the rule change covering the removal of the Net STEM shortfall refund obligation as part of the MEP project while the remaining refund changes would be wrapped up in the Reserve Capacity Review itself. Members queried exactly how the Net STEM shortfall obligations were going to be affected by the rule change and it was noted that the IMO was preparing a rule change paper on the specific issue.

4. INFORMAL WORKSHOP ON OUTAGE APPROVALS

Some members then stayed behind and held an informal workshop on the outage approval process. Following the discussions which covered a number of issues with the outage approval process, the IMO agreed to look at the transparency provisions around outages as part of the MEP project and the timelines for approval as part of the Outage Review currently underway.

5. RECOMMENDATIONS

It is recommended that the MAC:

- **Note** this update.