

Independent Market Operator
Market Advisory Committee

Minutes

Meeting No.	43
Location	IMO Board Room Level 3, Governor Stirling Tower, 197 St Georges Terrace, Perth
Date	Wednesday 5 October 2011
Time	3.00pm – 4.50pm

Attendees	Class	Comment
Allan Dawson	Chair	
Suzanne Frame	Compulsory - IMO	
Stephen MacLean	Compulsory – Customer	
Phil Kelloway	Compulsory – System Management	Proxy
Andrew Everett	Compulsory – Generator	
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	
Paul Biggs	Small Use Customer Representative	
Wana Yang	Observer – ERA	
Paul Hynch	Minister's appointee	Proxy
Apologies	Class	Comment
Ken Brown	Compulsory – System Management	
Peter Mattner	Compulsory – Network Operator	
Nerea Ugarte	Minister's appointee	
Also in attendance	From	Comment
Sanja Pavlovic	IMO (Contractor)	Minutes
Mike Thomas	The Lantau Group (TLG)	Presenter
Jeff Renaud	EnerNOC	Observer
Stacey Oldfield	IMO	Observer
Jenny Laidlaw	IMO	Observer
Fiona Edmonds	IMO	Observer
Sam Beagley	IMO	Observer
Rebecca Denton	IMO	Observer
Greg Ruthven	IMO	Observer

Item	Subject	Action
1.	<p>WELCOME</p> <p>The Chair opened the meeting at 3.00 pm and welcomed members to the 43rd meeting of the Market Advisory Committee (MAC). The Chair introduced two new IMO staff members, Sam Beagley (Analyst, Market Development) and Rebecca Denton (Graduate Analyst).</p>	
2.	<p>MEETING APOLOGIES / ATTENDANCE</p> <p>Apologies were received from:</p> <ul style="list-style-type: none"> Ken Brown Peter Mattner Nerea Ugarte <p>The following other attendees were noted:</p> <ul style="list-style-type: none"> Phil Kelloway (Proxy for Ken Brown) Paul Hynch (Proxy for Nerea Ugarte) Mike Thomas (Presenter) Jeff Renaud (Observer) Jenny Laidlaw (Observer) Rebecca Denton (Observer) Fiona Edmonds (Observer) Greg Ruthven (Observer) Stacey Oldfield (Observer) Sam Beagley (Observer) 	
3.	<p>MINUTES OF PREVIOUS MEETING</p> <p>The minutes of MAC Meeting No. 42, held on 13 September 2011, were circulated prior to the meeting.</p> <p>The following amendments were agreed.</p> <p>Page 4: Section 6a: Market Rule Change Overview</p> <ul style="list-style-type: none"> “Ms Wana Yang noted that the ERA did not wish there to be any further delays with the progression of the Rule Change Proposal: Reassessment of Allowable Revenue during a Review Period (RC_2011_02) <u>and offered to work with the IMO to resolve any outstanding issues.</u> The Chair noted Ms Yang's concerns and acknowledged that there had been some personnel changes in the IMO resulting in extension notices needing to be issued.” <p>Page 4: Section 6b: Balancing and LFAS Arrangements – Process to date and next steps</p> <ul style="list-style-type: none"> “Ms Yang queried whether the MAC's endorsement of PRC_2011_10 is required. The Chair advised that MAC operates in an advisory capacity and the decision to proceed or not is for the IMO (or any other submitting party) <u>is not for the MAC</u> to make. The recommendation ...” <p>Page 6: Section 6d: PRC_2011_10: Competitive Balancing and Load Following Market</p> <ul style="list-style-type: none"> “... the IMO is currently preparing a revised list of confidential information. Mr Kelloway noted that <u>queried whether a process or</u> 	

	<p>procedure to govern the confidentiality arrangements so that any proposed changes are put to a working group or the MAC for assessment is <u>should be</u> incorporated."</p> <p>Subject to the above amendments, the minutes were accepted as a true and accurate record of Meeting No. 42.</p> <p><i>Action Point: The IMO to update the minutes of Meeting No. 42 to reflect the points raised by the MAC and publish on the website as final.</i></p>	IMO
4.	<p>ACTIONS ARISING</p> <p>Most actions arising were completed prior to the meeting. The following exceptions were noted.</p> <ul style="list-style-type: none"> • Item 33: In progress. • Items 27 and 45: Mr Greg Ruthven noted that the IMO met with System Management during the development of the 2011 Statement of Opportunities (SOO). It was agreed that the calculations under clause 4.5.12 needed to consider the requirement to have generation reserves available for Ancillary Services and to meet the various reserve standards. This had been built into the methodology for this year's SOO. The discussions also highlighted that the Market Rules currently prevented the consideration of some of the limitations on scheduling Demand Side Management (DSM), and this was also flagged in the SOO. A follow up meeting has been arranged for later in October to aid the development of any Rule Change Proposals that may be required to address this concern. 	
5a.	<p>MARKET RULE CHANGE OVERVIEW</p> <p>Ms Suzanne Frame noted that RC_2011_10: Competitive Balancing and Load Following Market was formally submitted into the rule change process in September 2011. The first submission period will conclude on 7 November 2011.</p> <p>Ms Frame also noted that the timeframe for the Draft Rule Change Report for the Rule Change Proposal: Reassessment of Allowable Revenue during a Review Period (RC_2011_02) had been extended to 14 December 2011. The Chair explained that on reviewing the proposed amendments he had noted some potential flaws and highlighted these to the Economic Regulation Authority (ERA).</p> <p>Ms Wana Yang expressed the ERA's disappointment that the timelines for the proposal had been further extended, noting that the first submission period had ended in May 2011. The Chair apologised for the delay but again noted that he had found the proposal as drafted to be materially flawed. The Chair had communicated his concerns in detail to the ERA, which had not disputed the validity of the issues raised. The proposed amendments could not be implemented as drafted.</p> <p>Ms Yang requested a detailed plan of how the IMO will make sure the Draft Rule Change Report is published by the 14 December 2011. Ms Yang noted the delay in processing this proposal in comparison to the</p>	

	<p>shorter timeline for the more comprehensive proposal such as RC_2011_10.</p> <p>Mr Stephen MacLean noted that other MAC members were unaware of the details of the Chair's concerns. The Chair explained that currently the ERA approves the Allowable Revenue for the IMO and System Management for a three year period. The drafting of the proposal incorrectly implied that the ERA's Allowable Revenue approval was one year at a time, and could be interpreted as approval of capital items included in the detail of the Allowable Revenue supporting documentation as being approved on a line item by line basis. The Chair advised that he has personally sent an email to the ERA detailing the relevant concerns.</p> <p>Mr MacLean questioned the need to delay the Draft Rule Change Report, suggesting that it could be published with a note explaining that the issue had been identified and perhaps proposing a solution. The Chair replied that the IMO would be proposing a solution, but wished to agree this with the ERA first as it had submitted the original proposal. Mr MacLean and Ms Yang suggested publishing the Draft Rule Change Report without the revised drafting. Mr Corey Dykstra disagreed, noting that in principle if material issues arise with a proposal it is better that they be clarified before the Draft Rule Change Report is published. Mr Shane Cremin considered that the issue was not just for the ERA to consider, and that the Draft Rule Change Report should be issued with the revised wording for consideration by all Market Participants.</p> <p><i>Action Point: The IMO to provide the ERA with a plan detailing how the IMO intends to meet the 14 December 2011 timeframe for the Draft Rule Change Report for the Rule Change Proposal: Reassessment of Allowable Revenue during a Review Period (RC_2011_02).</i></p>	IMO
6a.	<p>MARKET PROCEDURE CHANGE OVERVIEW</p> <p>Ms Frame noted that the Procedure Change Report for the Procedure Change Proposal: Changes to Market Procedure for Reserve Capacity Testing (PC_2011_05) had been published and the amended Market Procedure commenced on 1 October 2011.</p> <p>Ms Frame noted that the submission period for the Procedure Change Proposal: 5 Yearly Review of the Methodology and Process for Determining the Maximum Reserve Capacity Price (PC_2011_06) closed on 4 October 2011. Ten submissions were received and the IMO is currently preparing the Procedure Change Report.</p> <p>Mr Phil Kelloway noted that the overview of the Procedure Change Proposal: Supplementary Reserve Capacity (PC_2010_08) referred to a process to be followed by the IMO and System Management. Mr Kelloway questioned System Management's role in this process. Mr Ruthven replied that he believed System Management had a role in relation to communications requirements, but would confirm this before the next MAC meeting.</p> <p><i>Action Point: The IMO to confirm the details of System Management's role in the Market Procedure: Supplementary Reserve Capacity and</i></p>	IMO

	<i>report back to the next MAC meeting.</i>	
7a.	<p>WORKING GROUP OVERVIEW AND MEMBERSHIP UPDATES</p> <p>The MAC noted the Working Group overview.</p> <p>In response to a question from Mr Dykstra, the Chair confirmed that the Maximum Reserve Capacity Price Working Group (MRCPWG) had now closed.</p> <p>The Chair requested approval from the MAC for the appointment of Ms Frame as the Chair of the IMO Procedure Change and Development Working Group and as the representative for the IMO on the System Management Procedure Change and Development Working Group. The MAC agreed to the proposed appointments.</p> <p><i>Action Point: The IMO to add Ms Suzanne Frame to the membership details contained in the Terms of Reference for both the IMO and System Management Procedure Change and Development Working Groups and update the website accordingly.</i></p>	IMO
7b.	<p>RDIWG UPDATE (VERBAL UPDATE)</p> <p>The Chair noted that the proposed amendments to support the new balancing and Load Following Ancillary Services (LFAS) markets have been submitted into the formal rule change process.</p> <p>The Chair also advised that Dr Brendan Ring from Energy Market Reform had completed his report on the Market Power Review. The report was submitted to the IMO Board on 4 October 2011. If the IMO Board agrees the report will be circulated to RDIWG and MAC members within a week. Dr Ring has been contracted to come to Perth to explain the report to members if necessary and to work through the recommendations with the ERA. The Chair noted that the report recommended a number of rule changes which have been incorporated into RC_2011_10.</p> <p>Draft new and amended Market Procedures relating to the new balancing and LFAS markets are expected to be completed by the end of October 2011. There will be three workshops to walk through the proposed Market Procedures, commencing on 25 October 2011. These workshops are open to the industry.</p> <p>Mr Dykstra queried whether invitations for the workshops had been sent out. The Chair replied that he would check and ensure that invitations were issued by the end of the week.</p> <p>The Chair noted that the transitional arrangements had been circulated to and discussed by the RDIWG. Transitional arrangements were proposed to apply from April 2012 to 5 December 2012, when System Management's systems will be fully implemented. Two restrictions on the full balancing design are proposed to apply during the transition period:</p> <ul style="list-style-type: none"> • extending the gate closure window from two hours to six hours; • restricting the number of offer tranches available to IPP generators from ten to four. 	

	<p>Both these restrictions will be reviewed if System Management is not experiencing any problems during the transition phase.</p> <p>The Chair advised that the market trials paper has now been published on the IMO's website. It details the three stage transition process.</p> <p>The Chair urged members to provide the IMO with their submissions on RC_2011_10 as soon as possible.</p> <p><i>Action Point: The IMO to ensure that invitations to the workshops relating to proposed new and amended Market Procedures affected by the new balancing and Load Following Ancillary Services markets are distributed by 7 October 2011.</i></p>	IMO
8.	<p>REVIEW OF RCM: ISSUES AND RECOMMENDATIONS REPORT BY THE LANTAU GROUP</p> <p>The Chair noted that late in 2010 the IMO Board asked IMO management to provide it with some analysis regarding the Reserve Capacity Mechanism (RCM) and its performance to date. The IMO Board then commissioned The Lantau Group (TLG) to carry out a review of the RCM. The Chairman of the IMO Board has now provided TLG's report to the MAC with the aim of soliciting advice on the various recommendations and issues raised in the report. It is the expectation of the IMO Board that the MAC or a subsidiary working group will undertake a work programme to look at these issues.</p> <p>The Chair introduced Mr Mike Thomas from TLG, noting that to ensure continuity Mr Thomas had been engaged by the IMO to be available to any future working group constituted under the auspices of the MAC to further consider the recommendations of TLG's report.</p> <p>Mr Thomas provided MAC members with an overview of the contents of TLG's report. A copy of the report is available in the papers published for this meeting on the IMO website. The following points were discussed/noted.</p> <ul style="list-style-type: none"> • Mr Cremin questioned TLG's concern that implementing a dynamic refund mechanism without changing the Reserve Capacity Price (RCP) could produce adverse results. Mr Cremin considered that this view was based on an assumption that the status quo was optimal. Mr Cremin suggested that this assumption might not be correct and that a change might produce a better outcome. Mr Thomas replied he had considered this differently. The economic value of excess capacity at the moment is nearly zero, and continuing to pay the current RCP while reducing capacity refunds is clearly not efficient. Mr Thomas agreed that the current situation was not optimal, but did not consider that a dynamic refund mechanism should be considered in isolation. • Mr Thomas noted the impact of the Global Financial Crisis (GFC) on demand levels and the amount of excess capacity in the market. Mr Thomas submitted that it was important not to compound the existing problem of excess capacity. Mr Michael Zammit queried whether Mr Thomas was referring to an impact on peak demand or average demand, considering that only average demand was affected by the 	

	<p>GFC. Mr Thomas replied that he expected the delay of large loads due to the GFC would have had an impact on peak demand. The Chair agreed with Mr Thomas, noting a number of large mining loads that had failed to eventuate and that would have contributed significantly to peak demand. Mr Zammit responded that these loads were still under consideration and that the capacity cushion would need to be accommodating in case they determined to enter the market. Mr Huxtable noted that the market had not experienced a “perfect storm” situation (e.g. four consecutive days of extreme demand) in the last few years. Mr Thomas noted that the speed of growth of peak demand was a unique feature of the WEM.</p> <ul style="list-style-type: none"> • Mr Thomas noted the graph on page 5 of the TLG report, which shows the growth in uncontracted Capacity Credits. This had signalled to TLG the strong probability that the RCP exceeds the commercial value of the capacity in the open market. Within one year there had been an increase in uncontracted Capacity Credits from approximately 20% to 50%. • Mr Dykstra questioned why the IMO should offer to pay a floor price for capacity in the market if there is an obligation on Market Customers to secure Capacity Credits to meet their assigned obligations. The Chair considered that this was a good question, and asked those MAC members involved in the start of the market if they were aware of the reasoning behind this arrangement. The Chair suggested that the arrangement may have been implemented only to accommodate minor variations between available and required capacity from year to year. • The Chair noted that when he first joined the IMO in 2008 it had been seeking Supplementary Reserve Capacity. • Mr Zammit questioned whether TLG had considered any other reasons for the increase in uncontracted Capacity Credits. Mr Zammit suggested one possibility was that retailers were not concerned about the price as they passed through capacity costs to their customers, and so found it easier to purchase Capacity Credits from the IMO than from one or more Market Generators. Mr MacLean noted that this theory was not applicable to Synergy. • Mr Andrew Sutherland considered that the graph indicated that the surplus capacity was either much cheaper than the RCP suggested or else was funded by equity. • Mr Thomas directed MAC members to page 8 of the report, which shows TLG’s estimates of the value of incremental reserve capacity with and without DSM. Mr Thomas considered that, regardless of the reasons the results clearly indicate that the RCP is too high. • Mr Cremin noted that there is excess capacity on the supply side as well as on the demand side, and that the excess capacity indicated on page 5 of the report was mainly DSM and peaking generation rather than energy producing capacity. Mr Cremin submitted that price adjustments for excess capacity had been outweighed in recent years by increases in the Maximum Reserve Capacity Price (MRCP). Mr Thomas responded that the RCP needs to be valued more dynamically to reflect actual conditions in the market. 	
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	<ul style="list-style-type: none"> • Mr Dykstra agreed with Mr Thomas that the excess capacity was the result of the market responding to price, noting that in the last Reserve Capacity Cycle further capacity had entered the market despite the existing surplus. Mr Dykstra questioned why the market was paying new providers coming into the market for capacity that was not required, and whether this question had been considered by TLG. Mr Thomas responded that TLG had considered this question in its review. • Mr Zammit queried whether the current excess of capacity might resolve itself naturally as the proposed new major mining loads came on line. Mr Cremin responded that these loads would require an energy contract and that the energy suppliers were less interested in the RCP. Mr Sutherland agreed with Mr Cremin, suggesting that these loads would lead to the entry of new energy plant into the market. • There was some discussion about the reasons for the increase in uncontracted Capacity Credits. Mr MacLean considered that if a retailer considered the RCP to be too high it would be unlikely to enter into contracts that might lock this price in. Mr Dykstra noted that by selling Capacity Credits to the IMO providers avoided exposure to credit risk. • Mr Thomas discussed the various options considered by TLG to reduce the amount of unwanted capacity entering the market, and why it had decided on using price. Mr Cremin noted that new capacity entering the market must be assigned Certified Reserve Capacity by the IMO if the generator declares its intention to trade that capacity bilaterally. Mr Cremin questioned whether the requirement should be strengthened to ensure that the capacity was in fact traded bilaterally. • Mr Thomas noted that TLG had not been about to find a quantity based mechanism that was rigorous and accurate enough to be workable, and so had recommended addressing the problem through price. Mr Dykstra considered that there is already a priority order for certifying capacity in the Market Rules, and suggested that this could be used as the basis for a quantity limit. There was some discussion about the current priority order for capacity certification. • Mr Dykstra suggested that even with the proposed price disincentives there is still likely to be further entry of DSM capacity. Mr Jeff Renaud considered that there is a natural structural limit on the penetration of DSM in the market regardless of the pricing. Based on other markets Mr Renaud expected a limit of about 10% of peak capacity, which the market is currently approaching. Mr Cremin noted that a large new mining load might also choose to provide a large additional quantity of DSM capacity, effectively doubling the capacity requirement. • Ms Yang noted that no new 160 MW generators had entered the market since its commencement, and questioned whether consideration of a 160 MW generator for the MRCP was still relevant. Mr Thomas considered that a 160 MW generator was a suitable industry standard for use in these calculations. Mr Dykstra noted that the use of a 160 MW generator had been separately reviewed and approved by the MRCP Working Group. The Chair noted that the MRCP was a theoretical construct indicating the marginal price of 	
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	<p>new capacity entering the market. Mr Cremin noted that the NewGen facilities indicated that the choice was not purely theoretical.</p> <ul style="list-style-type: none"> • There was some discussion about the treatment of DSM in the market. Mr MacLean queried why DSM could not receive a small up front administrative payment and a higher dispatch payment. Mr Thomas considered that the implementation of TLG's recommendations might result in the exit of some DSM capacity from the market. Mr Renaud considered that it was important to ensure that there was enough DSM capacity to meet the extreme peaks. Mr Sutherland noted that DSM does not have the same fixed costs as generation, and that he was unsure how DSM should be compensated. Mr Dykstra supported the concept of a low availability payment and a high dispatch payment. Mr Huxtable suggested that this payment structure might also be applicable to peaking generation. • There was some discussion around whether the market does or should treat the different types of capacity equally. The Chair noted that the review had identified that while the availability requirements for DSM were currently too low, the fuel requirements for peaking units were currently too high. Mr Dykstra considered that the current fuel requirements were the result of the recent Rule Change Proposal: Certification of Reserve Capacity (RC_2010_14), and suggested that the relevant capacity related quantities should be harmonised before addressing the issue of price. • Mr MacLean suggested the formation of a working group as soon as possible to address the issues raised in TLG's report. The Chair agreed and proposed to develop the Terms of Reference and membership criteria for the new working group in time for the November 2011 MAC meeting, with the aim of holding the first meeting of the working group before Christmas. The IMO would ask Mr Thomas to attend this meeting, which would probably be a half day workshop, and to prepare some material for that meeting. • Mr MacLean suggested initially holding two half day workshops over two days, and requested that the first meeting be held before 29 November 2011 or after 19 December 2011 due to his leave arrangements. • MAC supported the suggestion of commencing the working group with two half day workshops to be held on consecutive days. • The Chair noted Mr MacLean's interest and advised that he would attempt to arrange the first meeting for a time when Mr MacLean was available. <p><i>Action Point: The IMO to develop the Terms of Reference and membership structure for a new working group to address the issues raised in The Lantau Group's paper: Review of RCM: Issues and Recommendations.</i></p>	IMO
9.	<p>GENERAL BUSINESS</p> <p>No General Business was raised.</p>	

10	<p>NEXT MEETING</p> <p>The Chair noted that Meeting No. 44 will be held on Wednesday 16 November 2011 (3.00pm – 5.00pm), one week later than the original date of 9 November 2011.</p>	
<p>CLOSED: The Chair declared the meeting closed at 4.50 pm.</p>		