

**Independent Market Operator**  
**Market Advisory Committee**

---

**Minutes**

<b>Meeting No.</b>	45
<b>Location</b>	IMO Board Room Level 3, Governor Stirling Tower, 197 St Georges Terrace, Perth
<b>Date</b>	Wednesday 14 December 2011
<b>Time</b>	2.00pm – 3.20pm

<b>Attendees</b>	<b>Class</b>	<b>Comment</b>
Allan Dawson	Chair	
Suzanne Frame	Compulsory - IMO	
Andrew Everett	Compulsory – Generator	
Phil Kelloway	Compulsory – System Management	Proxy
John Rhodes	Compulsory – Customer	Proxy
Peter Huxtable	Discretionary – Contestable Customer Representative	
Andrew Sutherland	Discretionary – Customer	
Steve Gould	Discretionary – Customer	
Shane Cremin	Discretionary – Generator	
Ben Tan	Discretionary – Generator	
Paul Biggs	Small Use Customer Representative / Observer - Minister's appointee	
Chris Brown	Observer – ERA	Proxy
<b>Apologies</b>	<b>Class</b>	<b>Comment</b>
Ken Brown	Compulsory – System Management	
Corey Dykstra	Discretionary – Customer	
Michael Zammit	Discretionary - Customer	
Peter Mattner	Compulsory – Network Operator	
Stephen MacLean	Compulsory – Electricity Retail Corporation	
Nerea Ugarte	Observer - Minister's appointee	
Wana Yang	Observer – ERA	
<b>Also in attendance</b>	<b>From</b>	<b>Comment</b>
Janine Ripper	IMO	Minutes
Brendan Clarke	System Management	Presenter
Bruce Cossill	IMO	Presenter
Bobby Ditric	IMO	Observer
Jenny Laidlaw	IMO	Observer
Fiona Edmonds	IMO	Observer
Greg Ruthven	IMO	Observer

Stacey Oldfield		IMO	Observer
Item	Subject	Action	
1.	<p><b>WELCOME</b></p> <p>The Chair opened the meeting at 2.00 pm and welcomed members to the 45<sup>th</sup> meeting of the Market Advisory Committee (MAC).</p>		
2.	<p><b>MEETING APOLOGIES / ATTENDANCE</b></p> <p>Apologies were received from:</p> <ul style="list-style-type: none"> <li>Ken Brown</li> <li>Peter Mattner</li> <li>Nerea Ugarte</li> <li>Michael Zammit</li> <li>Corey Dykstra</li> <li>Stephen MacLean</li> <li>Wana Yang</li> </ul> <p>The following other attendees were noted:</p> <ul style="list-style-type: none"> <li>Phil Kelloway (proxy for Ken Brown)</li> <li>Chris Brown (proxy for Wana Yang)</li> <li>Bruce Cossill (Presenter)</li> <li>Jenny Laidlaw (Observer)</li> <li>Greg Ruthven (Observer)</li> <li>John Rhodes (Proxy for Stephen MacLean)</li> <li>Brendan Clarke (Presenter)</li> <li>Bobby Ditric (Observer)</li> <li>Stacey Oldfield (Observer)</li> <li>Fiona Edmonds (Observer)</li> </ul>		
3.	<p><b>MINUTES OF PREVIOUS MEETING</b></p> <p>The minutes of MAC Meeting No. 43, held on 5 October 2011, were circulated prior to the meeting.</p> <p>The minutes were accepted as a true and accurate record of Meeting No. 43.</p> <p><i>Action Point: The IMO to publish the minutes of Meeting No. 43 on the website as final.</i></p>	<b>IMO</b>	
4.	<p><b>ACTIONS ARISING</b></p> <p>Most actions arising were completed prior to the meeting. The following exceptions were noted:</p> <ul style="list-style-type: none"> <li><b>Item 33:</b> Ms Suzanne Frame advised that the IMO was targeting the February 2012 MAC for the completion of Item 33 at this stage. The Chair advised that the IMO had pushed this out due to the amount of activity currently.</li> <li><b>Item 51:</b> Ms Frame explained that there had been action on the IMO to provide the Economic Regulation Authority (ERA) with a plan of how the IMO was going to meet the 14 December 2011 publication date for the Draft Rule Change Report for the Rule Change Proposal: Reassessment of Allowable Revenue during a Review Period (RC_2011_02). Ms Frame advised that the report had been</li> </ul>		

	presented to the IMO Board last week, with the Board requesting discussion of the report to be postponed until the Board meeting on 15 December 2011. An extension to the timeframes for publishing the Draft Rule Change Report had been requested by the IMO Board in order for this to happen.	
<b>5a.</b>	<b>MARKET RULE CHANGE OVERVIEW</b>  The Chair requested that it be noted that the IMO has a policy of pushing forward externally proposed rule changes as a priority, and that the vast majority of the rule changes on the outstanding rule change list were proposed changes from the IMO which were identified by the IMO's regular review processes.	
<b>5b.</b>	<b>PRC_2011_09: PRUDENTIAL REQUIREMENTS</b>  Mr Bruce Cossill presented the Pre Rule Change Discussion Paper: Prudential Requirements (PRC_2011_09). Mr Cossill noted that the Pre Rule Change Discussion Paper followed up the Issues Paper presented to the MAC at its June 2011 meeting. Mr Cossill advised that the purpose of the rule change was to simplify and clarify the mechanism for calculating prudential credit limits and making margin calls. The rule change will effectively bring the rules into line with the current Market Procedure, which has been in place since market start, and would improve the transparency and robustness of the prudential regime, enabling the real time calculation of net current liabilities through the settlements system so that the trading margin is always current and visible, and that the market is therefore maintained in a more secure state.  Mr Cossill noted that there were two appendices to the paper, including the draft Market Procedure which would be put through the Market Procedure change process. The Market Procedure had been redrafted to reflect the proposed Amending Rules, and to tidy up items such as the removal of network operators from the prudential regimes. The calculation formulas included were the basic framework and would form part of the Market Procedure; any further detail that was required could be included through the Procedure Change Process. Following a query from Mr Shane Cremin, Mr Cossill confirmed that there was an example of the calculations included in the paper on page 31.  Mr Cremin noted that he had not had time to read the paper in detail since it had been distributed to MAC members. The Chair confirmed that there was no real change to the procedure, and explained that the intent of the Rule Change Proposal was to accurately reflect the procedures and practices that were already in place. The Chair advised that there was an opportunity to submit feedback as part of the formal rule and procedure change processes.  The MAC agreed to the progression of PRC_2011_09 and the associated changes to the Market Procedure: Prudential Requirements.	
<b>5c.</b>	<b>PRC_2011_14: CALCULATION OF AVAILABILITY CLASS QUANTITY CORRECTION</b>	

<p>Mr Brendan Clarke presented System Management's Pre Rule Change Discussion Paper: Calculation of Availability Class Quantity Correction (PRC_2011_14). A copy of Mr Clarke's presentation is available on the IMO website.</p> <p>In summary, the issue was that "there is a mismatch in the Availability Curve calculation and the Demand Side Programme (DSP) requirements". Mr Clarke noted that the calculation rules were not currently causing a problem, but considered that because Reserve Capacity was procured two years in advance the issue needed to be addressed.</p> <p>Mr John Rhodes queried whether the required hours of availability per year for Availability Class 1 was being changed from 96 to 72. Ms Jenny Laidlaw confirmed that under the proposed changes to clause 4.5.12(c) the forecast of capacity required for 96 hours per year was no longer used.</p> <p>There was some discussion about whether the 2002/03 load profile used in the Availability Curve calculations for the 2011 Statement of Opportunities (SOO) was representative of current load patterns. The Chair advised that the IMO would look at updating this profile prior to the calculations for the 2012 SOO.</p> <p><i>Action Point: The IMO to consider updating the load profile used in the Available Curve Calculations for the Statement of Opportunities.</i></p> <p>Mr Clarke confirmed that the proposal did not seek to alter the Availability Class requirements. For example, a DSP seeking certification in Availability Class 4 could still offer only 24 hours of availability per year. If the DSP offered more hours (up to 48) then this would give it priority in certification, as the longer duration offers would be accepted before the shorter duration offers. Mr Clarke also noted that the proposal did not limit the amount of Demand Side Management (DSM) that could be certified.</p> <p>The Chair noted that Mr Corey Dykstra had sent comments on PRC_2011_14, requesting that they be represented at the meeting. Mr Dykstra had commented that "from the information contained in PRC_2011_14 it is unclear whether the issue identified by System Management would lead to increased risk to system reliability as claimed by System Management. This is because it is not clear that in procuring capacity, the IMO is required to assume, or in fact assumes, that all capacity within a particular Availability Class (e.g. Availability Class 4) is available for the maximum hours that capacity in the Availability Class may be available (i.e. 48 hours), or whether it procures capacity based on the actual availability of capacity within each Availability Class". The Chair advised he would forward Mr Dykstra's comments to Mr Clarke and Mr Greg Ruthven, so that they could work together to prepare a response for presentation to the MAC.</p> <p>Mr Cremin noted that the proposal did not have any impact on what DSP providers can bring into the market. Mr Cremin queried whether the proposal could be varied so that a DSP was made to provide at least 48 hours of availability for certification in Availability Class 4. The Chair</p>	<p><b>IMO</b></p>
---	-------------------

<p>suggested that the upcoming review of the Reserve Capacity Mechanism (RCM) was likely to review the availability requirements for DSM.</p> <p>Mr Brendan Clarke advised that System Management had considered the option suggested by Mr Cremin, but had chosen the option presented in PRC_2011_14 as it believed that this would be easier to implement in the short term. Mr Clarke considered that the changes were only likely to be in effect for the next SOO, as they would be overtaken by the outcomes of the RCM review.</p> <p>The Chair asked MAC members if they were comfortable with the progression of the proposal. Mr Cremin queried whether it was worth progressing the proposal for just one SOO, given the upcoming RCM review and the uncertainty resulting from the use of a 2002/03 load profile. Mr Clarke noted that the IMO planned to update the load profile used in the calculations. Mr Peter Huxtable considered that there was value in progressing the proposal as it provided a filtering mechanism that might be required in future. Mr Ben Tan queried whether this was likely given the timing of the RCM review.</p> <p>The Chair asked MAC members whether they considered that the proposal was worth pursuing at this time, given the current workload. Mr Cremin considered that this was a question for System Management, and that if it considered there was value in implementing the change for one SOO then it was not a difficult proposal to progress. Dr Steve Gould considered that this was a straight forward rule change that could serve to send the signal to DSM not to keep flooding in.</p> <p>Mr Ben Tan raised another issue regarding the load forecast. Mr Tan noted that System Management must use DSM at the perfect times in order to make the load forecast accurate and to do this it would need to predict the peak intervals with 100% accuracy. Mr Clarke agreed that this was true but noted the issue was not something that could be resolved easily.</p> <p>Dr Paul Biggs suggested that the effect of the change would be trivial when compared to the effect of forecast errors contained within the SOO.</p> <p>The MAC supported the progression of PRC_2011_14 into the formal rule change process.</p> <p>Mr Tan queried whether System Management had reviewed the Availability Curve for the past year against the DSM that had been called in that year, and queried whether the information could be provided to the new RCM Working Group to assist its consideration of DSM capacity. The Chair confirmed that the data could be made available to the Working Group.</p> <p><i>Action Point: The IMO to circulate System Management's presentation on the Pre Rule Change Discussion Paper: Calculation of Availability Class Quantity Correction (PRC_2011_14) to MAC members.</i></p> <p><i>Action Point: The IMO to forward the feedback provided by Mr Corey Dykstra on the Pre Rule Change Discussion Paper: Calculation of Availability Class Quantity Correction (PRC_2011_14) to Mr Brendan</i></p>	<p></p> <p></p> <p></p> <p></p> <p></p> <p></p> <p></p> <p></p> <p><b>IMO</b></p> <p><b>IMO</b></p>
---	---

	<p><i>Clarke and Mr Greg Ruthven.</i></p> <p><i>Action Point: Mr Brendan Clarke and Mr Greg Ruthven to provide MAC members with a response to Mr Corey Dykstra's comments on the Pre Rule Change Discussion Paper: Calculation of Availability Class Quantity Correction (PRC_2011_14).</i></p> <p><i>Action Point: System Management to submit the proposal: Calculation of Availability Class Quantity Correction (PRC_2011_14) into the rule change process.</i></p>	<p><b>IMO/ System Mgmt</b></p> <p><b>System Mgmt</b></p>
<b>6a.</b>	<p><b>MARKET PROCEDURE CHANGE OVERVIEW</b></p> <p>Ms Frame noted that the Market Procedure and Power System Operation Procedure (PSOP) changes associated with the Market Evolution Program (MEP) were reasonably substantial and that initial drafts of all procedures had been presented at a number of public workshops held throughout November 2011. The IMO intended to put the procedure changes through the formal Procedure Change Process in early 2012, staggering their submission on a week by week basis to avoid overloading stakeholders.</p> <p>The Chair noted that the Market Procedures were currently out for informal comment, and that there were still opportunities to review and provide feedback. The formal process will commence in the New Year.</p> <p>Ms Suzanne Frame advised the timeline for the procedure changes had been published on the IMO website.</p>	
<b>7a.</b>	<p><b>WORKING GROUP OVERVIEW</b></p> <p>The MAC noted the Working Group overview.</p>	
<b>7b.</b>	<p><b>RDIWG UPDATE</b></p> <p>The Chair advised that the Draft Rule Change Report for the Rule Change Proposal: Competitive Balancing and Load Following Market (RC_2011_10) had been released and was available on the IMO website.</p> <p>The Chair also advised that market trials had commenced for the new IMO market system, and asked all members to encourage their teams to log in and test the new environment.</p> <p>Mr Andrew Everett advised that he had received two security keys but no passwords for the new system. The Chair advised that this would be rectified by the end of the day.</p> <p><i>Action Point: IMO to provide Mr Andrew Everett with passwords to the new market system.</i></p>	<b>IMO</b>
<b>7c.</b>	<p><b>RCM REVIEW WORKING GROUP</b></p> <p>The Chair noted that a proposed structure and draft Terms of Reference for the RCM Working Group (RCMWG) had been circulated to MAC members prior to the meeting.</p>	

	<p>The Chair advised that Mr Dykstra had suggested some changes to the Terms of Reference, and had also suggested that the RCMWG should also consider “how should capacity be defined”. Mr Dykstra considered this was relevant because it has become clear that capacity offered by different technologies has different characteristics. The Chair considered that this would be a worthy addition to the Terms of Reference.</p> <p>Mr John Rhodes asked if further submissions could be made on the documents, and whether the documents could be brought back to the February 2012 MAC meeting for review and discussion.</p> <p>The Chair confirmed that the IMO was happy to receive submissions up until February and would conduct the first RCMWG meeting after the February 2012 MAC meeting.</p> <p>Mr Huxtable queried whether end-users should be represented in the proposed structure, given that the Working Group would be addressing issues relevant to end-users such as changes to the Individual Reserve Capacity Requirement (IRCR). The Chair agreed to the inclusion of two end-users in the proposed structure. The Chair confirmed that the IMO would proceed with determining the membership of the RCMWG and would circulate the draft Terms of Reference, subject to MAC approval in February 2012. The Chair advised that the IMO would notify MAC members of the deadline for feedback.</p> <p>Mr Cremin questioned whether a draft work schedule with proposed meeting dates had been prepared for the RCMWG. The Chair asked for feedback on the scheduling of RCMWG meetings on the same day as MAC meetings. It was agreed to not schedule the RCMWG on the same day as the MAC, but on consecutive days. Ms Laidlaw noted that there would be a secretariat overhead if the meetings were held on consecutive days. The Chair advised that there could be a delay with the distribution of the minutes for the meetings due to the close succession of the meetings. The MAC noted the advice.</p> <p><i>Action Point: The IMO to advise MAC members of the deadline for feedback on the proposed structure and Terms of Reference for the Reserve Capacity Mechanism Working Group.</i></p>	IMO
8.	<p><b>DUAL FUEL INCENTIVES</b></p> <p>The Chair apologised for not including a covering note for circulation with the papers for the Dual Fuel Incentives agenda item.</p> <p>The Chair represented Mr Dykstra’s views to the MAC members present:</p> <p>“I note that there is no covering paper, but understand that the intention is simply to seek MAC members’ views on whether the industry wished to progress considering the manner in which incentives might be provided in the Wholesale Electricity Market (WEM) to support the provision of dual fuel generation and the maintenance of back-up fuel stocks.</p> <p>Certification on dual fuels results in higher capacity testing costs and additional fuel storage and cycling costs – which may not currently be able to be recovered. For this reason, Alinta opted not to certify its Wagerup facility as a dual fuel facility in the most recent certification process, although it remains capable of operating using both gas and distillate. The suggestion of exploring the adoption of a back-up fuel</p>	

ancillary service would be able to be implemented much sooner given it likely avoids the need to amend the Market Rules, and because if obtained outside of the RCM it would not be subject to the 2-year lead times (i.e. it would ensure that facilities that are capable of dual fuel operation but may not be certified as such can provide the desired ancillary service to the market)."

The Chair noted that the Gas Supply and Emergency Management Committee (GSEMC) had recommended that there be an incentive in the WEM for dual fuel facilities, given the important role they played during the 2008 Varanus Island disruption. The Office of Energy (OoE) had commissioned Pricewaterhouse Coopers (PwC) to undertake a review of the options for incentivisation of dual fuel facilities. The IMO was provided with a draft of the report around August 2010, and in turn responded to the Anne Hill in January 2011. The IMO followed up the issue in September 2011 with Michael Kerr, who responded by letter in October 2011 and gave permission to share the draft PwC report with MAC members.

Dr Biggs advised that the OoE's intention has been to receive the PwC report and issue it for public consultation together with an issues paper drafted by the OOE. The OOE was not happy with the initial drafting of the issues paper. Dr Biggs confirmed that new resources had now been assigned to the task, and that he expected to be able to provide advice to the Minister shortly, in order to start a more public consultation process. Dr Biggs noted that the OoE had made a commitment to MAC members that they would be provided with the opportunity to see the draft report and provide feedback to aid the OoE in its analysis of what was worth pursuing, so that it could then provide more consolidated advice to the government. Dr Biggs invited comments today or subsequently from MAC members, and confirmed that after MAC members had the opportunity to provide feedback the OoE intended to publish a discussion paper as the next step.

Mr Cremin queried the current intentions of the OoE with regard to the recommendations in the PwC report. Dr Biggs replied that the OoE had not yet made its own judgement on whether to follow the PwC recommendations or whether more efficient options existed, and that the views of MAC members on this question would be valuable. Mr Cremin questioned how much money should be spent to provide incentives for dual fuel facilities, noting that full redundancy would be very expensive.

The Chair advised that based on his observations there was very much a portfolio approach to try and manage this risk, and that this initiative was just one aspect of it, as there were other initiatives underway. The Chair noted as an example the IMO's obligation to develop an emergency gas management system to provide timely information to stakeholders. There was some discussion about the costs of providing dual fuel capacity and the progress that has been made to mitigate the risks of a gas disruption since the 2008 Varanus Island incident. Dr Biggs considered that the environment had changed since the PwC report had been commissioned and that there was now a greater focus on constraining costs.

Dr Biggs confirmed that his aim was to issue a formal discussion paper early in the new year, and requested MAC members to email him directly



	<p>any informal comments by the end of January 2012, so that they could be built into the discussion paper.</p> <p><i>Action Point: MAC members to email Dr Paul Biggs any informal comments of the Pricewaterhouse Coopers draft report: Review of options for implementing electricity and gas market contingency arrangements by 31 January 2012.</i></p> <p>The Chair noted that if an Ancillary Services type solution was adopted then the IMO could design and implement such a solution relatively quickly, as it would not be tied to a Reserve Capacity Cycle. The IMO would look to the OoE for policy guidance on this issue.</p> <p>The Chair advised that an action item would be kept open so that the Office of Energy could provide MAC with a progress report.</p> <p><i>Action Point: The Office of Energy to provide the MAC with an update on progress around the implementation of incentives for dual fuel facilities in the Wholesale Electricity Market.</i></p> <p>Dr Gould noted that during the Varanus Island emergency there were no actual electricity curtailments but the supply of diesel had nearly run out. Dr Gould suggested that the issue of diesel availability also needed to be considered. There was general agreement that supply chain issues needed to be taken into consideration, and some discussion of gas and diesel supply arrangements during the Varanus Island incident.</p>	<p><b>All</b></p> <p><b>Office of Energy</b></p>
<p><b>9.</b></p>	<p><b>TRANSITIONAL ARRANGEMENTS POLICY</b></p> <p>The Chair advised that as a result of undertaking the process of evaluating the two recent rule changes associated with the allocation of Capacity Credits to Intermittent Generators (RC_2010_25 and RC_2010_37), the IMO Board had requested the development of a set of clear and transparent criteria for determining the appropriateness of applying transitional arrangements. These are arrangements that would be implemented as part of a Rule Change Proposal that staggered the implementation and effect of the changes over a period of time.</p> <p>The Chair confirmed that the paper was for informational purposes, so that MAC members could understand the framework that had been adopted. The guidelines would be published on the IMO website.</p> <p>Mr Kelloway queried whether the transitional arrangements policy had been put to the test. The Chair advised that the policy had been utilised by the IMO Board in recommending the transition arrangements included in RC_2010_25.</p> <p>The Chair represented Mr Dykstra's views to the MAC members present:</p> <p>"I think the IMO should be commended for making this paper available. However, it would be useful to understand the extent to which the paper has been adopted by the IMO and the IMO Board – i.e. does the entire paper represent the transition guidelines that have been endorsed and adopted by the IMO Board, or does the IMO's 'policy' differ in any way from that outlined in Sapere's report?"</p> <p>The Chair clarified that the transitional arrangements policy had been</p>	

	<p>adopted in full by the IMO and the IMO Board, and that it had been used in the consideration of RC_2010_25 and RC_2010_37.</p> <p>Mr Kelloway questioned if the transitional arrangements policy applied to the Market Evolution Program. The Chair confirmed that it did not, and that it had been adopted as a guiding principle.</p> <p>Mr Cremin agreed with Mr Dykstra's sentiments, and reiterated that as a set of guidelines it was good to have as at least it provided a reference point to debate the validity of requests for transitional arrangements.</p> <p>The Chair summarised that the transitional arrangements policy was a framework the IMO Board would use to assess whether a proposed rule change qualified for consideration of transitional arrangements.</p> <p>Mr Kelloway advised that the transitional arrangements policy was good to see.</p> <p>The Chair advised that the paper would be converted into a policy document to be placed onto the IMO website.</p> <p><i>Action Point: The IMO to publish its guidelines for transitional arrangements on the IMO website.</i></p>	<b>IMO</b>
<b>10.</b>	<p><b>2011 YEAR IN REVIEW</b></p> <p>The Chair summarised the IMO's achievements for 2011, noting that there had been a great deal of activity throughout the year. The Chair noted that the number of rule changes developed and underway had slightly decreased from 2009 and 2010, but the rule changes that had been developed in 2011 had been more substantive than in previous years. The Chair confirmed that all IMO Operations teams had re-drafted their Market Procedures, which would go through the Procedure Change Process during 2012.</p>	
<b>11.</b>	<p><b>GENERAL BUSINESS</b></p> <p>The Chair thanked the MAC members for all of their efforts throughout 2011 and wished them a Merry Christmas.</p>	
<b>12.</b>	<p><b>NEXT MEETING</b></p> <p>Meeting No. 46 will be held on Wednesday 8 February 2012.</p>	
<b>CLOSED:</b> The Chair declared the meeting closed at 3.20 pm.		