

Market Advisory Committee

Minutes

Meeting No.	66
Location	IMO Board Room Level 17, 197 St Georges Terrace, Perth
Date	Wednesday 13 November 2013
Time	2:00pm – 4:30pm

Attendees	Class	Comment
Allan Dawson	Chair	
Kate Ryan	Compulsory – IMO	
Clayton James	Compulsory – System Management	Proxy
Andrew Everett	Compulsory – Generator	
Matthew Fairclough	Compulsory – Western Power	Proxy
Will Bargmann	Compulsory – Customer	
Geoff Gaston	Discretionary – Generator	
Michael Zammit	Discretionary – Customer	
Shane Cremin	Discretionary – Generator	
Nenad Ninkov	Discretionary – Customer	
Steve Gould	Discretionary – Customer	
Peter Huxtable	Discretionary – Contestable Customer Representative	
Paul Hynch	Minister's appointee – Observer	Proxy (2:37pm-4:30pm)
Wana Yang	Observer – Economic Regulation Authority (ERA)	
Andrew Sutherland	Discretionary – Generator	
Apologies	From	Comment
Noel Ryan	Compulsory – Western Power	
Phil Kelloway	Discretionary – System Management	
Nerea Ugarte	Minister's appointee – Observer	
Also in attendance	From	Comment
Fiona Edmonds	Alinta Energy	Presenter (2:00pm-3:00pm)

Jenny Laidlaw	IMO	Presenter
Brendan Clarke	System Management	Presenter
Andy Stevens	Bluewaters Power	Presenter (2:00pm-4:00pm)
Simon Middleton	Merger Implementation Group	Presenter (2:00pm-3:00pm)
Erin Stone	IMO	Presenter
John Rhodes	Synergy	Observer
Paul Troughton	EnerNOC	Observer
Natalia Kostecki	Public Utilities Office (PUO)	Observer
Greg Ruthven	IMO	Observer (2:00pm-3:00pm)
Paul Lingard	King & Wood Mallesons	Observer (2:00pm-3:00pm)
Michael Georgiou	King & Wood Mallesons	Observer (2:00pm-3:00pm)
Alex Penter	IMO	Observer
Courtney Roberts	IMO	Observer
Martin Maticka	IMO	Observer (2:00pm-3:00pm)
George Sproule	IMO	Minutes

Item	Subject	Action
1.	WELCOME The Chair opened the meeting at 2:00pm and welcomed members to the 66th meeting of the Market Advisory Committee (MAC).	
2.	MEETING APOLOGIES / ATTENDANCE The following apologies were received: <ul style="list-style-type: none"> Noel Ryan (Compulsory – Network Operator) Phil Kelloway (Compulsory – System Management) The following proxies were noted: <ul style="list-style-type: none"> Matthew Fairclough for Noel Ryan (Compulsory – Network Operator) Clayton James for Phil Kelloway (Compulsory – System Management) Paul Hynch for Nerea Ugarte (Minister's appointee – observer) The following presenters and observers were noted: <ul style="list-style-type: none"> Fiona Edmonds (presenter, Alinta Energy) Jenny Laidlaw (presenter, IMO) Brendan Clarke (presenter, System Management) Andy Stevens (presenter, Bluewaters Power) 	

	<ul style="list-style-type: none"> • Simon Middleton (presenter, Merger Implementation Group) • Erin Stone (presenter, IMO) • John Rhodes (observer, Synergy) • Paul Troughton (observer, EnerNOC) • Natalia Kostecki (observer, PUO) • Greg Ruthven (observer, IMO) • Paul Lingard (observer, King & Wood Mallesons) • Michael Georgiou (observer, King & Wood Mallesons) • Alex Penter (observer, IMO) • Courtney Roberts (observer, IMO) • Martin Maticka (observer, IMO) • George Sproule (minutes, IMO) 	
3.	<p>MINUTES OF PREVIOUS MEETING</p> <p>The minutes of MAC Meeting No. 65, held on 9 October 2013, were circulated to members prior to the meeting.</p> <p>The following amendments were agreed:</p> <p>Section 5a: page 4 of 14</p> <ul style="list-style-type: none"> • The Chair questioned if it was normal for generators to have a deadband in place. Mr Kelloway stated this was the case. Mr Andrew Stevens then question if a deadband of 3 MW <u>0.025 Hz</u> was normal or was it deemed small? Mr Kelloway stated he was unsure, noting he was not a member of the Technical Rules committee. <p><i>Action Point: The IMO to amend the minutes of Meeting No. 65 to reflect the agreed changes and publish on the Market Web Site as final.</i></p>	IMO
4.	<p>ACTIONS ARISING</p> <p>The Chair introduced Ms Kate Ryan to update the MAC on the current actions. The following points were noted:</p> <ul style="list-style-type: none"> • Item 42: Ms Ryan noted that following further amendments, the minutes of MAC meeting No. 63 had been recirculated to MAC members and that no comments had been received. The recirculated minutes were agreed to be a true record of the meeting. • Item 43: Ms Ryan offered MAC members the opportunity to provide input into the IMO's letter to the ERA and PUO, requesting consideration of the proposal to ensure DSP's are subject to licencing, specifically under a separate licencing category. • Item 47: Ms Ryan noted that this item was in underway and that the relevant Pre Rule Change Proposal was scheduled to be presented at next MAC meeting in December. 	

5a.	<p>Market Rule Change Overview</p> <p>Ms Ryan noted that six Rule Changes Proposals were currently being progressed by the IMO.</p>	
5b.	<p>PRC_2013_17: Correction to estimated output of Intermittent Generation for purposes of Appendix 9</p> <p>Ms Fiona Edmonds provided MAC members with an overview of Alinta's Pre Rule Change Proposal. The following key comments and queries were made.</p> <ul style="list-style-type: none"> • Mr Clayton James noted that System Management supported the proposal but had some concerns with its proposed wording. Mr James offered to meet with Alinta to discuss System Management's concerns. • Mr Will Bargmann proposed that where the IMO has been provided a more accurate estimate of the potential output of an Intermittent Generator that was dispatched downwards by System Management, the IMO should be obliged (rather than have the discretion) to use that estimate, should that estimate differ from the current estimate by more than a specified amount. In response the Chair invited Mr Bargmann to propose what the specified amount should be. • In response to a suggestion that System Management could routinely reassess its estimates, the Chair noted that such an approach could be inefficient and that the commercial obligation should be on Market Participants to check the estimates themselves. • Mr Bargmann noted that Participants may not notify the IMO where there has been an overestimate in their favour, and queried whether the IMO actually has the resources to identify instances where there has been an overestimate of the potential output of a Facility. In response Ms Ryan noted that an overestimate may be picked up during the certification process. Ms Jenny Laidlaw noted that it would be difficult to identify instances where an estimate of what an Intermittent Generator would have generated is in fact an overestimate, except where the estimate was above the maximum capacity of the generator. 	
5c.	<p>PRC_2013_18: Market Rule changes arising due to the merger of the Electricity Retail Corporation and Electricity Generation Corporation</p> <p>The Chair invited Mr Simon Middleton to present the Fast Track Rule Change Proposal submitted on 11 November 2013.</p> <ul style="list-style-type: none"> • Mr Middleton noted that the Rule Change Proposal covered the changes to address the minor, administrative and manifest errors that need to be corrected to align the Market Rules to the Electricity Corporations Act as expected to be amended early December 2013. He also noted that a wider briefing session would be held on 5 December to cover any questions related to the merger of Synergy and Verve Energy more broadly. • Mr Middleton outlined the key issues to be addressed under the Rule Change Proposal, the Merger Implementation Group's view of the assessment against the criteria to progress the proposal under the Fast Track Rule Change Process and how the proposed 	

	<p>Amending Rules would better address the Wholesale Market Objectives.</p> <ul style="list-style-type: none"> • Mr Middleton also noted that the proposal would not be decided on or commenced prior to changes to the Electricity Corporations Act being in place. <p>MAC members discussed the presentation. The following key comments and queries were made:</p> <ul style="list-style-type: none"> • Mr Matthew Fairclough noted that the proposed drafting of clause 2.3.5 could enlarge the size of the MAC by two members. Ms Ryan noted that it does increase the possible size of the MAC but based on the current membership, the number of members would reduce by one. • Mr Peter Huxtable questioned if the one Synergy representative would appropriately be able to represent the largest gentailer at the MAC. Mr Shane Cremin noted that it was difficult to determine without a full understanding of the ring fencing and regulations more broadly, whether one, two or three representatives were required. Mr Middleton responded that he believed that based on the proposed structure of Synergy and restrictions on the provision of information it wouldn't be an issue only having one MAC representative. • Mr Andrew Sutherland noted that members of the MAC ultimately are representing a class rather than a company. He further noted that there was a case for three representatives on the MAC to represent the proposed Generation, Retail and Wholesale Business Units, but it was likely that the representatives would meet prior to MAC which would defeat the purpose. Mr Bargmann noted that the issue had been discussed with the CEO of Verve Energy and Synergy and the view was that a single representative should be informed enough to represent the interests of both. • Mr Cremin noted that without further information on the preceding regulations it was difficult for stakeholders to comment or make a judgement on the Rule Change Proposal more broadly. He noted that he believed that there were a lot of items in the proposal that shouldn't be dealt with under the Fast Track Rule Change Process and questioned why the IMO had overridden previous precedents. Mr Andrew Everett asked Mr Cremin which aspects he considered shouldn't be included in a proposal in the Fast Track Rule Change Process. Mr Cremin answered that there is nothing to suggest that any change is required or that there are in fact manifest errors in the Market Rules. He noted that the market can work without the proposed amendments and continued to discuss previous issues with the Market Rules that had not been quickly addressed by the IMO. The Chair noted that manifest errors would arise if no changes were made to the Market Rules. The Chair also noted that the changes were primarily because the two entities were named throughout the Market Rules, where, with any other Market Participant, this type of change would only be administered through the registration processes. • Mr James noted that many Power System Operating Procedures will also need to be changed as a result of the merger but that 	
--	---	--

	<p>System Management has not yet developed a schedule for making the necessary changes.</p> <ul style="list-style-type: none"> • Mr Sutherland questioned if there would be further rule changes as a result of the merger. Mr Middleton responded that the submitted Rule Change Proposal was all that is required to give effect to the merger at this time. He noted that there are existing provisions in the Market Rules to monitor the performance of the merged entity and further suggested that as the merged entity began operating, different parties will review its behaviour and form views as to whether the Market Rules are adequate. The Chair clarified that the IMO Board has highlighted this as a potential issue and commenced discussions with the ERA but noted that without visibility of the provisions in the proposed regulations the IMO is not in a position to assess whether any further changes would be required. • Mr Cremin questioned if Ministerial approval was required. Ms Ryan confirmed that Ministerial approval was required as the Amending Rules proposed changes to Protected Provisions. • Mr Sutherland made a comment that the merger appeared to have taken a considerable amount to the IMO's resources which were notionally allocated to other issues and rule changes. He questioned whether this was commensurate with any other externally driven Rule Change Proposal and whether the Merger Implementation Group should be paying for extra resources to compensate the IMO. The Chair noted that the IMO estimated the costs to facilitate the merger to be in the region of \$300,000 and that it was capturing these costs and reporting them to the Minister quarterly and would report them in the IMO's Annual Report. Mr Sutherland noted that this only represented the direct cost of the merger not the opportunity cost. Mr Middleton noted that the costs associated with this proposal should be treated as other externally driven Rule Change Proposals. • Dr Natalia Kostecki questioned whether the PUO would be requested to provide advice to the Minister on the approval of the Rule Change Proposal. Mr Middleton confirmed that the Merger Implementation Group would be providing advice to the Minister on this issue. • Mr Andy Stevens queried whether the Rule Change Proposal would encourage the efficient entry of new competitors as purported in the assessment against the Wholesale Market Objectives and noted that he hoped the other benefits were correct. Mr Everett noted that the Rule Change Proposal is not proposing the merger, rather it is implementing the merger decision. • Mr Nenad Ninkov questioned whether the IMO was confident that the proposed changes qualified to be progressed under the Fast Track Rule Change Process. The Chair and Ms Ryan confirmed that the IMO had completed a fast track rule change assessment and were satisfied that it had passed the test. Ms Ryan also reiterated that the IMO Board would not approve the Amending Rules until the amendments to the Electricity Corporations Act 	
--	--	--

	<p>have been made.</p> <p>The Chair closed the agenda item reminding MAC members that the Rule Change Proposal was open for consultation and they were able to provide any further comments through that process</p>	
5d.	<p>PRC_2013_16 Outages and the application of Availability and Constraint Payments to Non Scheduled Generators</p> <p>The Chair invited Ms Erin Stone to present the Pre Rule Change Proposal.</p> <p>Ms Stone noted that the principles in the proposal have not changed since the concept paper was presented at the August MAC meeting but that the Pre Rule Change Proposal contained the proposed Amending Rules to implement the agreed concepts. The Chair opened the floor for questions and comments.</p> <p>The following key comments and questions were discussed:</p> <ul style="list-style-type: none"> • Mr Sutherland questioned whether the drafting required the logging of ex-ante Consequential Outages, or was intended to allow for it. Ms Stone answered that the intent is that Market Participants are able to but not required to log these Outages in advance. Mr Sutherland requested that the IMO ensure that it is made clear that this is not mandatory in the drafting of the proposed Amending Rules. • Mr James reiterated System Management's support of the principles contained in the Pre Rule Change Proposal but noted that it was large and proposed that the rule change be split into a number of smaller rule changes for the practicality of implementation. • Mr James also requested that two more issues be considered. One regarding the treatment of Outages with respect to shared declared sent out capacity limits and runback schemes and the other regarding temperature dependence. Ms Stone noted that while these issues are becoming more relevant with the prevalence of such schemes they should be reviewed more holistically and addressed as part of a separate piece of work. • Mr Sutherland questioned the application of the proposed Amending Rules to Scheduled Generators rather than just Non-Scheduled Generators as implied by the title and opening paragraphs or the proposal. Ms Stone agreed that the definition of an Outage in particular was common across Facility Classes but that the changes primarily affected Non-Scheduled Generators. • Mr Bargmann noted the complexity of the Rule Change Proposal and, in particular, the translation of words currently in the Market Rules, to formulae in the appendices and questioned what process the IMO were undertaking to ensure that the rules are accurately translated. Ms Stone noted that the formulae as currently drafted reflect what is currently in the settlement system but noted the possibility of an audit of the current clauses in the Market Rules, the proposed formulae and the current systems. • Mr Bargmann also questioned the use of SCADA data to settle parts of the market, noting its unreliable nature. Ms Stone noted that the use of SCADA and Meter Data had not changed under this 	

	<p>Rule Change Proposal.</p> <ul style="list-style-type: none"> Mr Geoff Gaston questioned whether this Rule Change Proposal would address the last of the incorrect constrained on/off payments. Ms Stone agreed that was the intention. Mr Sutherland noted that a representative from ERM Power was still considering the Amending Rules with respect to the impact of Load Following Ancillary Service (LFAS) quantities on constraint payments. Ms Stone agreed to contact the ERM representative to discuss the issue further. Ms Stone also noted that Alinta had arranged a meeting to discuss some potential operational issues arising from the proposal. Mr Ninkov noted that the issues related to network constraints and quality of connections should be investigated further. <p><i>Action Points:</i></p> <ul style="list-style-type: none"> <i>The IMO to organise an external audit of the consistency of the existing Market Rules, proposed formulae and current systems with respect to PRC_2013_16;</i> <i>The IMO to review the ability to split PRC_2013_16 into smaller changes and discuss with System Management;</i> <i>ERM Power to check the consistency of application of constraint payments with respect to LFAS that is currently in the Market Rules with that proposed in PRC_2013_16 and notify the IMO of its findings; and</i> <i>The IMO to ensure the proposed Amending Rules in PRC_2013_16 do not require ex-ante logging of Consequential Outages.</i> 	<p>IMO</p> <p>IMO/SM</p> <p>ERM</p> <p>IMO</p>
6a.	<p>CP_2013_13: Collection of Market Fees</p> <p>The Chair invited Mr Stevens to present the concept paper.</p> <ul style="list-style-type: none"> Mr Stevens noted that the concept paper was developed to seek agreement from MAC members that the current method of recovering fees on an energy only basis can be improved upon. Mr Stevens outlined a proposal to collect fees on both a capacity and energy basis. Mr Stevens discussed the proposed approach, noting that for the allowable revenue period this would result in 72% of fees charged to the energy market and 28% to the capacity market. <p>MAC members discussed the presentation. The following key comments and queries were made:</p> <ul style="list-style-type: none"> A question was asked how market fees were charged in the National Electricity Market (NEM). The Chair made the observation that it was difficult to compare Wholesale Electricity Market fees to NEM fees, as the NEM fee structure was very complex but the principle was to allocate costs based on the different services provided. Mr Paul Troughton commented that he was aware of three other International markets in New England, New York ISO and PJM in the USA that have capacity markets, where primarily market fees are charged on an energy only basis. He noted that PJM charged a small 	

	<p>percentage of fees to the capacity market, estimating that this was equal to one twentieth of the proposed fees in the SWIS. Mr Stevens questioned whether that was for both supply-side and demand-side resources. Mr Troughton noted he had not looked into that level of detail.</p> <ul style="list-style-type: none"> • Mr Troughton noted that as this was not about sending price signals to end-users but rather just a cost recovery of a primarily fixed fee, it was difficult to see why a great deal of effort should be put into changing the regime. Mr Sutherland added that he believed it would create another level of inefficiency as it was likely that the Reserve Capacity Price would rise by the same amount that Market Fees could be charged and therefore would simply be a wealth transfer. • Mr Sutherland questioned if the amount would be added to the Reserve Capacity Price. Mr Stevens suggested that it should not flow through. Mr Cremin noted that it would have to be added to the Reserve Capacity Price as it is a cost of conducting business. The Chair noted that the IMO had not considered the impact of the proposed changes on the Reserve Capacity Price. • Mr John Rhodes questioned what the impact would be. Mr Stevens responded that he believed it was approximately \$450 per MW per year. Mr Stevens later corrected this to be \$750 per MW per year. • MAC members raised a number of other options including a fixed fee per meter, charging straight to the end-user, charging an application fee and fixed and variable fee splits. The Chair noted that another market had split its fees as fixed and variable and it resulted in some absurd outcomes and barrier to entry for smaller entities and was unwound quite quickly. • Mr Everett questioned how the proposal could reduce the long-term cost of electricity given that the Market Fees are fixed for the allowable revenue period. Mr Stevens responded that where capacity is not utilised there is no end-user to recover costs from, and therefore operational costs such as Market Fees will be borne by the individual Market Participant. Mr Stevens noted that this will reduce the long-term cost of electricity by ensuring that Market Participants with lower levels of utilisation bear these costs individually rather than the market as a whole. • MAC members suggested that the IMO consider the construct of the Reserve Capacity Price to determine the impact on it as a result of the redistribution of Market Fees. The Chair agreed that the IMO needed to look at this issue. • Mr James noted that the allocation between the energy and capacity market was less clear for System Management and it needed to develop a better understanding of its undertakings with respect to the capacity market. The Chair noted that the ERA's costs would also need to be reviewed prior to the agreement of a cost allocation methodology. <p><i>Action points:</i></p> <ul style="list-style-type: none"> • <i>The IMO to conduct further analysis to determine the impact of the allocation of Market Fees to the capacity market, in particular, with</i> 	<p>IMO</p>
--	--	------------

	<p><i>respect to the Reserve Capacity Price; and</i></p> <ul style="list-style-type: none"> • <i>System Management to review its cost allocation between the energy and capacity market to assist Bluewaters' Rule Change Proposal to amend the Market Fees structure during the Rule Change Process.</i> 	SM
7.	<p>System Restart Service issues and update</p> <p>Mr Clarke gave a presentation on System Restart Service: Issues and Update.</p> <p>The following key comments and queries were made:</p> <ul style="list-style-type: none"> • Mr Clarke noted that the purpose of the update was to provide transparency around how System Management currently procures System Restart Services and what opportunities exist for new entrants to provide this service. • Mr Ninkov queried the current cost of the System Restart Services. Mr Clarke responded that the cost of System Restart Services was incorporated into the Cost_LR parameter determined every three years by the ERA, but the actual amount paid is whatever is agreed in the relevant contracts (currently approximately \$520,000 per year). Ms Wana Yang disagreed, considering that the actual amount paid could not be more than the Cost_LR value. The Chair noted that the IMO would check this. • Mr Ninkov queried whether there was an extra cost levied where the System Restart Service is actually used. Mr Clarke responded that the costs associated with the Facility actually running (and being tested) were already included in the contract price. Mr Ninkov queried who paid for the costs of testing the Facilities. The Chair noted that the costs were recovered from Market Customers via the settlements process. • Mr Clarke noted that the contracts were re-let every five years and that all existing contracts would expire on 30 June 2016. Mr Clarke also noted that there were very few providers of System Restart Services and that consideration needed to be given as to what the best mechanism for procuring the service is. • Mr Michael Zammit queried how many of the existing generators could conceivably provide System Restart Services. Mr Clarke noted that in addition to those Facilities currently providing the service, some of the other open cycle gas turbines could also provide the service if they invested in the required additional infrastructure. Mr Cremin queried whether any of the generators near to the goldfields could provide System Restart Services. In response Mr Clarke noted that the generators in the goldfields are too small to re-energise the system given the long distances over which their transmission link to Perth spans. Mr Clarke noted that the generator at Merredin faced similar issues. • Mr James noted that the reason why three Facilities were used to provide System Restart Services was to allow for extreme situations, such as where one of the Facilities is on maintenance and another one fails during the restart process. 	

	<ul style="list-style-type: none"> Ms Yang suggested that consideration should be given to ensuring that System Restart Services have a level of regulatory oversight consistent with that which applies to other Ancillary Services. Mr Clarke noted that System Management would be coming back to the MAC in the future to seek input from the MAC on the issues relating to System Restart Services. <p><i>Action Point: The IMO to check whether the maximum amount paid for System Restart Services is limited to Cost_LR.</i></p>	IMO
8.a	<p>Market Procedures overview</p> <p>Ms Ryan noted that in the next month there would be consultation on the Market Procedures relating to settlement and prudential requirements, as well as one or two System Management Power System Operation Procedures.</p>	
9a.	<p>Working Groups overview and membership updates</p> <p>Mr Rhodes was approved by the MAC to be the new representative of Synergy on the System Management Procedure Change and Development Working Group.</p>	
10a.	<p>GENERAL BUSINESS</p> <p>Update on LFAS</p> <p>Ms Laidlaw provided an update to MAC members on the ongoing investigations into the LFAS Requirement by the IMO and System Management. Ms Laidlaw advised MAC members that the IMO intended to publish the presentation on the Market Web Site.</p> <p>The following points were discussed.</p> <ul style="list-style-type: none"> The Chair questioned whether the investigation team had built a sufficient foundation of knowledge to allow it begin sculpting the LFAS Requirement in 2014. Ms Laidlaw considered that while it should be possible to begin sculpting the LFAS Requirement next year there were some key issues that needed to be addressed. In particular, Ms Laidlaw suggested that unless the current load forecasting issues were addressed the occurrence of random load forecasting errors could cloud the analysis results needed to implement sculpting. The Chair also queried the likely timeframe for the implementation of an accurate “causer pays” LFAS cost allocation methodology. Ms Laidlaw responded that the current plan was to undertake this work following the completion of the five year Ancillary Services Review in November 2014, which would, among other things, consider how to measure some of the quantities that would be required for accurate cost allocation. In response to a query from Ms Yang, Mr James and Ms Laidlaw confirmed that the team would be investigating how best to identify and deal with errors in the load forecasts used for dispatch. <p><i>Action Point: The IMO to publish on the Market Web Site the presentation for the November 2013 MAC: LFAS Requirement Investigation Update.</i></p> <p>MAC annual review</p>	IMO

	<p>The Chair noted that the annual MAC review process would be underway shortly and that the call for nominations would be published soon. The Chair noted that one customer representative position was up for nomination as was one generator representative position as well. The Chair noted that there would also be some changes to Synergy and Verve Energy's representation due to their merger. The chair then circulated to MAC members the proposed 2014 MAC meeting dates.</p> <p>Ms Ryan noted that the IMO would circulate recent figures for constrained on/off payments to MAC members in the next week.</p> <p>No other general business was noted</p> <p><i>Action Point: The IMO would circulate recent figures for constrained on/off payments to MAC members.</i></p>	<p>IMO</p>
<p>CLOSED: The Chair declared the meeting closed at 4:30pm.</p>		