

## Independent Market Operator

### Market Advisory Committee

#### Minutes

<b>Meeting No.</b>	28
<b>Location:</b>	IMO Board Room Level 3, Governor Stirling Tower, 197 St Georges Terrace, Perth
<b>Date:</b>	Wednesday 12 May 2010
<b>Time:</b>	Commencing at 2.00- 5.55 pm

Attendees	Class	Comment
Allan Dawson	Chair	
Troy Forward	Compulsory – IMO	
Stephen MacLean	Compulsory – Customer	
Ken Brown	Compulsory – System Management	
Wendy Ng	Compulsory – Generator	(2.05 pm)
Peter Mattner	Compulsory – Networks	(3.00 – 3.45 pm)
Corey Dykstra	Discretionary – Customer	
Steve Gould	Discretionary – Customer	
Peter Huxtable	Discretionary – Contestable Customer Representative	
Andrew Sutherland	Discretionary – Generator	
Shane Cremin	Discretionary – Generator	
Chris Brown	Observer – ERA	
Tony Perrin	Minister's appointee/ Small Use Customers	
Also in attendance	From	Comment
Greg Thorpe	Oates Implementation Review Team	Presenter
Jim Truesdale	Concept Consulting	Presenter
Ian Rose	ROAM Consulting	Presenter
Jenny Laidlaw	IMO	Minutes
Ben Williams	IMO	Observer
Greg Ruthven	IMO	Observer
Fiona Edmonds	IMO	Observer
Matthew Pember	IMO	Observer
Monica Tedeschi	IMO	Observer
Jacinda Papps	IMO	Observer
Derek McKay	ERM Power	Observer
Ky Cao	Perth Energy	Observer
Phil Kelloway	System Management	Observer
Rob Pullella	ERA	Observer
Michael Zammit	Energy Response	Observer
Jamie Hamilton	Deloitte	Presenter

Item	Subject	Action
1.	<b>WELCOME</b>  The Chair opened the meeting at 2.00 pm and welcomed members to the 28th meeting of the Market Advisory Committee (MAC).	

Item	Subject	Action
2.	<p><b>MEETING APOLOGIES / ATTENDANCE</b></p> <p>Apologies, for lateness, were received from:</p> <ul style="list-style-type: none"> <li>• Peter Mattner and Wendy Ng.</li> </ul> <p>The following other attendees were noted:</p> <ul style="list-style-type: none"> <li>• Ian Rose (Presenter)</li> <li>• Greg Thorpe (Presenter)</li> <li>• Jim Truesdale (Presenter)</li> <li>• Jamie Hamilton (Presenter)</li> <li>• Derek McKay (Observer)</li> <li>• Ky Cao (Observer)</li> <li>• Rob Pullella (Observer)</li> <li>• Michael Zammit (Observer)</li> <li>• Phil Kelloway (Observer)</li> <li>• Jacinda Papps (Observer)</li> <li>• Greg Ruthven (Observer)</li> <li>• Fiona Edmonds (Observer)</li> <li>• Ben Williams (Observer)</li> <li>• Monica Tedeschi (Observer)</li> </ul>	
3	<p><b>MINUTES OF PREVIOUS MEETING</b></p> <p>The minutes of the Special Meeting No.2, held on 14 April 2010, were circulated prior to the meeting.</p> <p><u>Page 2: Section 3: Network Control Services</u></p> <p>Dr Steve Gould requested the following amendment:</p> <ul style="list-style-type: none"> <li>• “Dr Gould noted the proposal for energy costs to be allocated to the network users who benefit and queried whether these users will be consulted prior to <del>being allocated any retrospective costs incurred any large costs being unexpectedly imposed.</del>”</li> </ul> <p>Mr Stephen MacLean advised that Synergy had been in discussions with Mr Peter Hawken about details of the cost allocation proposal for Network Control Services, and that he expected that Mr Hawken may provide further clarification to the MAC in the future on this point.</p> <p><u>Page 7: Section 6: Oates Review Implementation Paper</u></p> <p>Mr Andrew Sutherland requested the removal of the following:</p> <ul style="list-style-type: none"> <li>• “Mr Dykstra suggested that the short term solution (pathway 2) may remove any incentives for government owned entities to seek further reforms in the future. <del>Mr Sutherland also noted that there are incentives to undertake lower risk reforms due to the implications of making a wrong decision.</del>”</li> </ul> <p><u>Page 11: Section 8: Fuel Study Results</u></p> <p>Mr Corey Dykstra requested the following amendment:</p> <ul style="list-style-type: none"> <li>• “Synergy noted that the results presented in MMA’s report show limited difference between the impacts of having 14 hours versus 12 hours and stated that an economic choice needs to be made. Mr Dykstra <del>questioned noted issues around the appropriateness of the timing of any decisions around fuel capability, questioning whether</del></li> </ul>	

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	<p><del>there is an opportunity to influence government to get a market based solution made to reduce fuel storage.</del></p> <p>The IMO noted that it will progress the work to incentivise additional capability being installed. Mr Dykstra questioned the ownership of implementing the recommendations of the Gas Supply Steering Committee. The OoE noted a preference to develop a solution through the MAC given the committee's technical knowledge. My Dykstra noted that this provides an opportunity to influence government to consider a market based solution rather than an <del>interventionalist administratively imposed</del> solution."</p> <p>Subject to the agreed amendments, the MAC endorsed the minutes as a true and accurate record of the meeting.</p> <p><i>Action Point: The IMO to amend the minutes of Special Meeting No. 2 to reflect the points raised by the MAC and publish on the website as final.</i></p>	IMO
4	<p><b>ACTIONS ARISING</b></p> <p>The actions arising were either complete or on the meeting agenda. The following exceptions were noted:</p> <p><b>Item 93 (2009):</b> Mr MacLean advised that Synergy expects to present the concept paper at the June MAC meeting.</p> <p><b>Item 35 (2010):</b> Mr Troy Forward noted that there is an open invitation for MAC members to request meetings with the Market Rules Design Team and that Verve Energy and Griffin Energy have both done so. Mr MacLean asked whether the IMO had considered forming a MAC Working Group to assist with the Market Rules Design Review. The Chair noted that once a pathway has been selected and the detailed design phase has commenced it may be appropriate to constitute one of more MAC Working Groups.</p> <p><b>Item 37 (2010):</b> Underway.</p> <p><b>Item 38 (2010):</b> Mr Forward noted that all MAC members, including Compulsory Members, will be referred to as individuals in MAC minutes from this meeting onwards.</p> <p><b>Item 40 - 41 (2010):</b> Underway.</p> <p><b>Item 44 (2010):</b> Mr Forward noted that the IMO and the Office of Energy (OoE) met to discuss alignment of the IMO's work to incentivise dual fuel capability and the recommendations of the Gas Supply Management Committee. It was agreed that resources will be aligned and the processes will be expedited.</p> <p>Mr Dykstra requested clarification on what was being contemplated. It was noted that dual fuel firing and fuel storage (gas) were to be covered. Mr Dykstra expressed concern that the market might be required to fund enhancements to specific facilities and that the Market Fee levy may increase to pay for the conversion of specific facilities. Mr Forward assured the MAC that a market solution was intended. Mr Perrin agreed, adding that the report did not prohibit the inclusion of other facilities and that due process will be followed.</p>	

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	<p><b>Item 47 (2010):</b> Mr Forward noted that for planning purposes the need to discuss the LT PASA data request with Synergy had passed. The MAC agreed that the action item be closed.</p> <p><b>Item 48 (2010):</b> Mr Forward advised that Mr Jamie Hamilton of Deloitte would present on the Vesting Contract Review during the meeting.</p>	
<b>5a</b>	<p><b>MARKET RULE CHANGE OVERVIEW</b></p> <p>The MAC noted the overview of the Market Rule changes, including the additional detail provided by the IMO on the changes in the rule change and issues log.</p>	
<b>5b</b>	<p><b>APPROVAL PROCESS FOR EQUIPMENT TESTS [PRC_2009_37]</b></p> <p>Mr Ken Brown presented the Pre Rule Change Discussion Paper: Approval Process for Equipment Tests. Mr Brown noted that the objective of the proposal is to let a Market Participant plan and perform an Equipment Test under a Resource Plan, subject to System Management's prior knowledge and approval. An Equipment Test is intended to capture ongoing tests that don't satisfy the requirements of a Commissioning Test.</p> <p>Mr Brown noted that the proposal exempts a Market Participant from enforcement action for deviations from its Resource Plan during an approved Equipment Test. However, the Market Participant would remain liable for UDAP, DDAP and Capacity Cost Refunds).</p> <p>The Chair noted the changes to the Power System Operation Procedure: Commissioning and Testing required as a consequence of this Rule Change Proposal.</p> <p>The Chair asked for comments from the MAC. Mr McKay supported the proposal and described a recent example for ERM Power of where the concept of an Equipment Test would have been beneficial. Mr MacLean noted that the proposal was a practical solution.</p> <p>The MAC supported the progression of this Rule Change Proposal.</p> <p><i>Action Point: System Management to formally submit RC_2009_37.</i></p>	<b>SM</b>
<b>5c</b>	<p><b>BILATERAL SUBMISSION WINDOW DELAY [PRC_2010_10]</b></p> <p>Ms Wendy Ng presented the Pre Rule Change Discussion Paper: Bilateral Submission Window Delay. Ms Ng noted that the objective of the proposal is to allow the IMO to delay closure of the Bilateral Submission window and publication of Bilateral Submission quantities, in the same manner as is currently permitted for other events in the Scheduling Day. Ms Ng noted that a recent IMO IT System Outage had prevented Verve Energy from being able to make a Bilateral Submission that accurately reflected its contract position.</p> <p>The Chair noted the previous perception that the Bilateral Submission window did not require extension because Bilateral Submissions were more flexible than STEM Submissions or Resource Plans, but that this perception now appeared to be incorrect and that closer to real time changes are a feature of WEMS trading. Mr McKay expressed support for Verve Energy's proposal.</p>	

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	<p>The MAC supported the progression of this Rule Change Proposal.</p> <p><i>Action Point: Verve Energy to formally submit RC_2010_10.</i></p>	<b>Verve</b>
<b>6a</b>	<p><b>MARKET PROCEDURE CHANGE OVERVIEW</b></p> <p>Mr Forward noted that the Monitoring Protocol was a new procedure change in the process, noting that this will be the first in the new IMO style. The enhancements are designed to ensure readability, usability and consistency with the Market Rules.</p> <p>The MAC noted the overview of recent and upcoming procedure changes.</p>	
<b>7a</b>	<p><b>WORKING GROUP OVERVIEW</b></p> <p>The MAC agreed to the proposed amendments to the membership of the Renewable Energy Generation Working Group (REGWG).</p> <p>The Chair noted that after attending a recent REGWG meeting he considered that the group was working well despite its large size. On behalf of the MAC the Chair thanked the members of the REGWG for their efforts.</p> <p><i>Action Point: IMO to publish the updated terms of reference for the REGWG.</i></p>	<b>IMO</b>
<b>7b</b>	<p><b>REGWG WORK PACKAGE 1: INTERIM REPORT- SCENARIOS FOR MODELLING RENEWABLE GENERATION IN THE SWIS</b></p> <p>Mr Forward noted that the REGWG has endorsed the Interim Report prepared by ROAM Consulting. It was noted that Dr Ian Rose was in attendance to answer the MAC's questions on the report.</p> <p>The Chair queried why the report was still an interim report. Mr Forward responded that there were two forecasting elements to consider:</p> <ul style="list-style-type: none"> <li>• The overnight load forecasts (which have since been resolved); and</li> <li>• Ensuring that the long term forecasts in the ROAM report align with the informal long term forecast recently prepared by National Economics (for OoE).</li> </ul> <p>Ms Ng noted the under most of the scenarios presented in the report OCGTs and CCGTs are assumed to be gas-fired, Ms Ng questioned whether restrictions to gas availability had been considered. Dr Rose noted that there was a scenario specifically assessing coal development, also noting that no scenario restricted OCGT and CCGT capacity and it was assumed that gas would be available.</p> <p>Mr Perrin questioned the timing assumptions about the proposed 330 kV Transmission line between Pinjar and Geraldton, particularly with regard to the second stage. Dr Rose replied that the report contained no timing assumptions, but noted that a failure to implement this stage may result in a constraint on generation in the affected region. Mr Perrin noted that it was unlikely that the extension would proceed if it was purely dependent on funding from an intermittent generator, and that development would be dependent on load requirements. Dr Rose noted that the extension of the</p>	

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	<p>line is demand/load dependent therefore not triggered or funded by generators. It was noted that the natural load growth leads to a 5 – 10 year timeframe.</p> <p>Mr Ken Brown noted that the first three scenarios assume high gas use and questioned whether there had been any discussion with gas pipelines or suppliers, noting that gas availability was a big assumption to make. Mr Brown also noted that OCGTs, in comparison to CCGTs, often do not have firm capacity. Dr Rose noted that the work packages look to address these issues, but recognise that there may be gas instantaneous availability issues. Dr Rose highlighted that while gas availability was an issue the modelling did not involve significant gas volumes.</p> <p>Mr Kelloway queried whether there had been any analysis of how OCGT/CCGT usage will develop. Dr Rose responded that any OCGT plant used for load following should increase, especially if there is a high penetration of wind, but that the rest is likely to continue to have low utilisation rates.</p> <p>The Chair noted that gas availability and gas flexibility in particular are key issues, particularly if there is growth in wind generation.</p> <p>Mr MacLean questioned whether transmission constraints had been a factor in the planting schedules. Dr Rose replied that ROAM had studied existing IMO applications and considered that there was some flexibility as to where new generation resources could be placed. It was noted that the analysis was considered to be robust as there was enough resource to meet the scenarios relative to any transmission constraints.</p> <p>Mr Peter Huxtable raised a query about Energy Response's DSM capacity in Appendix A, which listed 23 MW for Energy Response's DSM1 programme and the 73 MW for Energy Response's DSM2 programme. It was questioned whether the second programme was an incremental amount i.e. 50MW, or whether this was an additional 73MW. Dr Rose agreed to investigate and update if necessary.</p> <p>Mr Cremin requested clarification on the future path. Mr Forward replied that the outputs from this work package feed into the other work packages (which are all underway). As each of the other work packages progress update reports and rule changes (if appropriate) will be presented to the MAC.</p> <p>The MAC noted the Interim Report.</p> <p>Mr Ken Brown noted that this work overlaps with the studies being undertaken by the Generation Outlook work stream (Oates Review). Mr Forward noted that ROAM Consulting had been appointed to assist with the modelling and analysis requirements for the Generation Outlook, leveraging off the REGWG work.</p>	
<b>7c</b>	<p><b>MRCPWG : RESPONSE TO MAC FEEDBACK</b></p> <p>Mr Forward noted that comments had been received from Alinta on the proposed Terms of Reference (ToR) and scoping questions for the Maximum Reserve Capacity Price Working Group (MRCPWG). Based on</p>	

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	<p>Alinta's comments the IMO has amended both the ToR and the scoping questions.</p> <p>Mr Forward advised that the IMO had published a call for nominations for membership of the MRCPWG. Mr Forward noted that Western Power and System Management have requested involvement in the MRCPWG and that the IMO has subsequently amended the Working Group's membership. Mr Forward clarified that the IMO was trying to keep the size of this Working Group manageable, to support a highly structured approach to its work.</p> <p>Mr MacLean questioned whether a call for nominations will be standard practice for Working Groups in future. Mr Forward responded the intention was to add more structure and rigour in the IMO's processes and that if the approach works in this case then it is likely to be used for future Working Groups.</p>	
	<p><b>VESTING CONTRACT PRESENTATION</b></p> <p>The Chair introduced Mr Jamie Hamilton from Deloitte to present on the Vesting Contract review.</p> <p>Mr Hamilton noted that the objective of the review is to negotiate a commercial contract to replace the existing Vesting Contract, with the aim to be effective from 1 August 2010. Features of the new contract are:</p> <ul style="list-style-type: none"> <li>• removal of the Netback pricing and balancing hedge components;</li> <li>• a more commercial allocation of the risks associated with franchise customers;</li> <li>• reduced administrative burden for both Verve Energy and Synergy;</li> <li>• revised displacement arrangements, whereby the new contract brings forward the displacement of what was already going to be displaced (noting that relative volumes can not be disclosed); and</li> <li>• the ability to supply energy and capacity at commercially agreed prices.</li> </ul> <p>Mr Hamilton noted that the new contract is not intended to create excessive profits for either party or inhibit the future introduction of Full Retail Contestability. The contract will be discrete, not an enduring assignment of any rights with respect to the franchise segment. There will be no requirement in these arrangements for Synergy to recontract with Verve Energy after the end of the contract, or for Verve Energy to continue to supply Synergy.</p> <p>It was noted that the 1 August 2010 target date was dependent on the approval process. However, Mr Hamilton considered that he did not expect any significant delays affecting this unless these would be in the best interests of the market, Verve Energy and/or Synergy.</p> <p>Mr Cremin questioned whether there was a clear delineation between contestable and franchise load in the new contract. Mr Hamilton responded that there had been some deliberation about whether these customer bases could be split successfully. Mr Hamilton noted that it was not possible to contract to cover the current tariff load because of the current displacement</p>	

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	<p>arrangements. Mr Hamilton noted that the wholesale cost allocation process is currently being discussed with the OoE.</p> <p>Mr McKay queried the proposed term of the new contract. Mr Hamilton replied that this was yet to be finalised.</p> <p>Mr Rob Pullella noted that prior arrangements had been based on ensuring the growth of competition, and asked if Mr Hamilton could comment on how the new arrangements would affect this. Mr Hamilton replied that he wasn't in a position to answer this question.</p> <p>Mr MacLean noted that there would be an external, independent review of the new contract to ensure that it was fair to all parties and that the ToR for this review were to be set by the Oates team. Mr Dykstra requested that when forming the ToR the Oates team might allow Market Participants to identify any key concerns they might have. Mr Hamilton acknowledged the request but stated that while he could not necessarily see any problems with the request he could not commit to that consultation process. Mr Hamilton stated that he would communicate the request to Mr Oates.</p> <p>It was agreed that MAC members raise their issues with the IMO and that the Chair would table these at the Steering Group meeting on behalf of the MAC.</p> <p><i>Action Point: MAC members to provide the IMO with any comments on the Vesting Contract review.</i></p> <p><i>Action Point: The Chair to table the MAC members' comments on the Vesting Contract Review at the Steering Group meeting.</i></p>	<p><b>Members</b></p> <p><b>IMO</b></p>
<b>8a</b>	<p><b>MARKET RULES DESIGN REVIEW: WORKSHOP OVERVIEW</b></p> <p>The Chair noted the Market Rules Design Review workshop held on Monday, 10 May 2010. Mr Forward thanked the MAC for its involvement in the workshop, noting that he had received some encouraging feedback about how it had opened the issues up to a wider audience. Mr Forward requested feedback from the MAC on how such events could be improved in future.</p> <p>The Chair noted that some common themes had emerged during the workshop. One frequent question was how Balancing Support Contracts (BSCs) could work in the future. It was noted that Mr Greg Thorpe and Mr Jim Truesdale had given considerable thought to this issue and would present some options to the MAC.</p> <p>Several questions were raised around the development pathway decision, in particular concerning the timeframe and approval framework. Mr Forward provided a presentation on this. The presentation is contained in appendix 1 of these minutes. In summary, it was noted that the approval framework is dependent on the option and/or pathway chosen and each has a number of approval/decision levels.</p> <p>The Chair noted that the current IMO budget includes some funding for Oates Review work. This budget could probably cover the design for option A1, but an amendment to the Operational Plan would be required for any of</p>	



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	<p>the other options. It is expected that a Declared Market Project would be required if either of pathways 2 or 3 were selected.</p> <p>Mr Forward noted that ACCC approval, AFSL requirements and any required changes to other regulatory instruments will need to be considered once a pathway has been decided.</p> <p>Mr Ken Brown queried whether the Oates team is keeping the Minister informed. The Chair replied that while he expected that this was the case, the IMO had its own formal obligations under the Wholesale Electricity Industry (Independent Market Operator) Regulations (2004) to liaise with the Minister.</p> <p>Mr Forward noted that workshop participants wanted more information about the costings of the different options, and that a high level quantitative analysis would be developed over the coming weeks.</p> <p><i>Action Point: The IMO to publish the presentation “Market Rules Design Review – Development Pathway Decision: Approval and Timeframe” on the IMO website.</i></p> <p>The Chair invited Mr Thorpe and Mr Truesdale to present some initial thinking on how BSCs could work. Mr Truesdale noted that the options presented were based on an assumption that pricing and cost allocation distortions are addressed to the extent practical under the current design. The presentation is contained in appendix 2 of these minutes.</p> <p>General discussion ensued, the following points were discussed:</p> <ul style="list-style-type: none"> <li>• What pricing and cost allocation distortions are present in the Market, this was clarified to ensuring that a fair balancing price existed noting that DDAP/UDAP and Capacity Cost Refunds were up for consideration.</li> <li>• Whether MCAP reflect the balancing generator’s costs or not.</li> <li>• Interrelationship between a market driven price for balancing and the contestability of that balancing market ;</li> <li>• Efficient price with an inefficient provider, then there must be a cross-subsidy somewhere.</li> <li>• How the BSC concept differed from Demand Side Management.</li> <li>• How DecBSC offers could be used. How prices could be determined.</li> <li>• Relationship to overnight issue;</li> <li>• Relationship between IPPs making DecBSC and IncBSC offers and publication of an initial MCAP forecast</li> <li>• Relationship to the Market Rules Evolution Plan and what it was trying to achieve.</li> </ul>	IMO

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	<ul style="list-style-type: none"> <li>Relationship between moving closer to real-time and balancing requirement.</li> </ul> <p><i>Action Point: The MAC to provide feedback on the BSC presentation.</i></p> <p>The Chair thanked members for their input, and noted that there was one remaining question regarding the pathway decision. Mr Forward requested advice from MAC members as to what they require from the Market Rules Design Team (MRDT) to aid the pathway decision. The Chair requested that members not ask for a full cost/benefit analysis and detailed design for each of the four options. Mr Dykstra asked why this was not feasible. In response, Mr Forward described today's BSC presentation (with a small amount of additional work) as an example of a "70 percent" design. The intention for the pathway decision is to undertake "70 percent" or "Level 1" designs and corresponding "Level 1" costings of the key aspects of each option, providing this information to the MAC.</p> <p>Mr Huxtable queried what information would be provided about the benefits of the different options. The Chair referred Mr Huxtable to Appendix One of the Oates Review Implementation Concept Paper. Members questioned whether an order of magnitude may be able to be provided for these benefits.</p> <p><i>Action Item: MAC members to email Mr Forward with details of the information they require to enable them to reach a pathway decision.</i></p> <p>Mr Dykstra noted that the review process had been underway for several months. At the workshop, there had been discussion about the Oates timeframe, and how it was influencing the review timetable. The Chair noted that the Oates timeframe was adding some impetus to the current process.</p> <p>Dr Gould considered that there is a hidden threat about the timescale, in that a decision may be imposed if the MAC does not reach one soon. The Chair noted that this concern has been raised previously, and that he thought (although this had not been tested) that if the MRDT went to the Minister/Oates Implementation Team with a choice of option B or C and a request for an extended timeframe then this would be considered.</p> <p>The Chair noted that probably only option A1 would fit completely within the proposed 15 month timeframe. Mr Dykstra queried whether option A1 actually achieved the Oates requirements. Mr Ken Brown submitted that the A1 option has not been explored well enough yet to reach a conclusion on this. Mr Kelloway supported Mr Ken Brown's view.</p> <p>Mr Pullella queried whether it is possible that more IPP expertise is needed as input to the process. Mr Dykstra stated that the workshop was still at a very high level and there was an expectation for more interactive involvement in the development of the options.</p> <p>It was agreed that while the first workshop was a good forum for high level engagement, an additional workshop was required to discuss the detail. It was agreed that attendance be restricted to MAC members, who could each bring one additional operational attendee.</p> <p><i>Action Point: the IMO to arrange a workshop to be held in June 2010.</i></p>	<p><b>Members</b></p> <p><b>Members</b></p> <p><b>IMO</b></p>

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	<p>Mr Ky Cao questioned the exclusion of Perth Energy from the workshop. Mr Cao stated that Perth Energy would not expect to approve something in which it had not been involved. Mr Dykstra noted that the discretionary members of the MAC had an obligation to represent the views of the particular participant class they represented. Mr Cao asserted that the MAC was a body populated by individual organisations, not independent experts, and repeated that Perth Energy would not accept a decision made without its involvement.</p>	
9a	<p><b>RESERVE CAPACITY SECURITY</b></p> <p>Mr Forward presented the Reserve Capacity Security (RCS) paper noting that this paper had arisen from a comprehensive internal process review. The MAC discussed each of the discussion points in turn.</p> <p><b>Discussion point 1:</b> Mr Forward noted that, as currently drafted, the Market Rules requires RCS to be provided for <u>each</u> year of exposure to construction risk. This means that a participant would be required to provide three amounts of RCS for a single facility under construction. Historically the IMO has only requested RCS for one Reserve Capacity Year within the Reserve Capacity Cycle.</p> <p>Mr Forward noted that following a recent default in the market the question has been raised of how much risk the market bears in relation to new facilities under construction.</p> <p>Mr MacLean suggested that the IMO propose a rule change to reflect the IMO's current operational practice. The MAC supported this proposal.</p> <p>Mr Cremin noted that the amount of RCS required is a large amount, but the MAC also need to consider the risks involved, in particular regarding Supplementary Reserve Capacity. In order to reduce the risk of future defaults, Mr Cremin queried whether the IMO was able to strengthen the requirements for awarding Certified Reserve Capacity in regard to a facility's committed status. Mr Forward noted that any issues are difficult to detect until the third year. In the case of the recent default, the IMO had engaged an independent expert who had recommended that approval be given.</p> <p><i>Action Point: the IMO to investigate whether it is able to strengthen the requirements for awarding Certified Reserve Capacity.</i></p> <p><b>Discussion Point 2:</b> The MAC agreed that all Facilities should be treated equally and that all Facilities (conventional and non-conventional) should be entitled to get their RCS back when they prove to the IMO that they can meet their obligations.</p> <p><b>Discussion Point 3:</b> Mr Forward explained that the IMO must reduce the number of Capacity Credits assigned to a Facility if it fails a Reserve Capacity Test. Currently these Facilities may be entitled to have their full RCS returned if they have reduced Reserve Capacity Obligations as a result of failing a test.</p> <p>The MAC agreed that a Facility should <u>not</u> be entitled to have its full RCS back if it has reduced its obligation as a result of failing a test.</p>	IMO

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	<p><b>Discussion Point 4:</b> The MAC discussed whether RSC should be released before RCOQs apply when a Facility has entered the market early.</p> <p>Mr Ken Brown did not consider that one Trading Interval is sufficient time for a Facility to prove that it can meet its obligations if it has entered the market early. Additionally, both Mr Cremin and Mr Dykstra note that facilities entering early already get the benefits of doing so.</p> <p>Mr McKay stated that there was no benefit in holding RSC that is no longer required and so the return of RCS should not be delayed, provided that the testing requirements were adequate. Mr Forward agreed to explore what the appropriate test level (depth) should be for testing facilities entering the market early.</p> <p>The MAC agreed that participants should be able to get their RCS released before their RCOQs apply if they enter the market early, subject to agreement as to the appropriate test level.</p> <p><i>Action Point: The IMO to investigate the appropriate level of testing for a participant to demonstrate ability to meet its Reserve Capacity Obligations and so become eligible for the release of its Reserve Capacity Security.</i></p> <p><b>Discussion Point 5:</b> The MAC discussed how Facility upgrades should be treated for the purposes of RCS. Mr Forward noted the example in the concept paper of a 100 MW Facility being upgraded to increase its capacity to 120 MW. Under the Market Rules it is not clear what output the Facility must demonstrate to qualify for the return of any RCS. Mr Cremin considered that if a Facility is upgraded then it should be treated as a single new Facility for the purposes of determining the required output level. Therefore for the example in the concept paper, the required output level should be 90 percent of 120 MW.</p> <p>The MAC agreed that with regard to Facility upgrades, the whole Facility (as upgraded) should be tested for the purposes of RCS.</p> <p><b>Discussion Point 6:</b> The Chair noted that the IMO Board had asked for a paper to be developed exploring options for the cancellation of Capacity Credits, following the issues surrounding WA Biomass.</p> <p>The MAC noted that this issue is currently under consideration by the IMO.</p> <p><b>Communication Plan</b></p> <p>Mr Dykstra enquired about the Communication Plan outlined in the concept paper, given the recommendations of the MAC in relation to Discussion Point 1. Mr Forward noted that the communication plan was unnecessary as recommendation 1 was not endorsed.</p> <p>Mr Dykstra queried whether any participants would be subject to additional RCS requirements. The Chair stated that the IMO had no intention of calling for any additional security. Mr Forward added that this was particularly the case as there was agreement to proceed with a Rule Change to remove the requirement for additional RCS.</p>	IMO

Item	Subject	Action
	<i>Action Point: the IMO to progress a Rule Change Proposal to reflect the RCS discussion.</i>	<b>IMO</b>
<b>9b</b>	<p><b>CURTAILABLE LOADS</b></p> <p>Mr Forward noted that operational practices surrounding Demand Side Management (DSM) are inconsistent with the current framework under the Market Rules. The paper presented to the MAC listed the identified issues and includes recommendations for consideration by the MAC.</p> <p><b><i>Recommendation 1: The Market Rules be changed so that a Market Participant other than the Market Customer is able to contract for the Reserve Capacity associated with Curtailable Loads.</i></b></p> <p>It was noted that registration of Curtailable Loads only works for individual loads and not for aggregators. Mr Huxtable queried whether the proposed change would create a new participant class. Mr Forward confirmed that this was the case.</p> <p>Mr MacLean noted a concern with this recommendation as it takes control over a load away from a retailer by allowing a third party to transact with loads, and that by doing so it opens up the possibility of other transactions occurring. Mr Michael Zammit noted that Energy Response had no intention of selling energy to retail customers and that it was considered good not to be a retailer.</p> <p>Mr MacLean noted a concern that aggregators are unregulated and that an aggregator could deceive a customer by failing to inform it of the obligations it would incur in return for the payments being offered. Mr Dykstra expressed a similar concern. The Chair suggested that the Trade Practices Act may prohibit this type of behaviour.</p> <p>Mr Zammit agreed with Mr MacLean's concerns about unregulated practices, noting that to provide rigour Energy response holds an AFLS licence and is developing a code of conduct/ethics policy.</p> <p>Mr Dykstra suggested that there may need to be a separate session between Market Customers (including their relevant account managers) and DSM Providers to discuss these issues.</p> <p>Mr Cremin noted that in general there were very strong licensing requirements for Market Customers and Market Generators, and that similar standards should be in place for DSM providers. Mr Zammit did not see any reason why aggregators should not be subject to some licensing and compliance requirements.</p> <p><i>Action Point: The IMO to send a letter to the Office of Energy on behalf of the MAC requesting the introduction of licensing obligations for DSM Providers.</i></p> <p>Mr Forward noted that the key question under consideration was whether it is appropriate to include DSM providers in the Market Rules. Mr Dykstra noted that he did not suggest that aggregators should be excluded from the market, however they must operate in a manner that works. Dr Gould noted that Landfill Gas &amp; Power (LGP) has a customer with a separate DSM</p>	<b>IMO</b>

Item	Subject	Action
	<p>aggregator contract, so the situation already exists.</p> <p><i>Action Point: The IMO to proceed with a Rule Change Proposal to allow a Market Participant other than a Market Customer to contract for the Reserve Capacity associated with a Curtailable Load.</i></p> <p><b>Recommendation 2:</b> <i>The Market Rules be changed to create a new class of facility, known as a DSM Programme.</i></p> <p>Mr Forward noted that the Market Rules treat a DSM Programme as a single (aggregated) Facility for some purposes and as individual Facilities for other purposes, leading to registration and dispatch issues. The recommended change will resolve these operational issues by allowing a DSM Programme to be treated consistently as a single aggregated Facility under the Market Rules.</p> <p>Mr MacLean suggested that a different capacity price should apply to DSM Programmes. Mr Forward commented that this had been considered in the past but there are some difficulties with this approach.</p> <p>The MAC endorsed recommendation 2.</p> <p><b>Recommendation 3:</b> <i>The Market Rules be changed so that over-subscription of DSM Programmes is allowed.</i></p> <p>Mr Forward noted that under the Market Rules it is not possible to have over-subscribe DSM Programmes. This presents a problem to DSM providers, who would prefer to over-subscribe programmes to ensure that curtailment requirements can be met. Mr MacLean noted that individual Loads can change retailer or else prove to be unreliable. Both problems mean that a DSM provider has to over-subscribe.</p> <p>Mr Dykstra considered that the process was not very efficient. Mr Zammit responded that the process is efficient from Energy Response's viewpoint, as it allowed it to provide System Management with a reliable load reduction when needed.</p> <p>Mr MacLean stated that a mechanism was needed to ensure that what is offered by a DSM provider can be delivered. The Chair noted that the Market Rules will provide for a rigorous test regime from 1 October 2010.</p> <p>The MAC endorsed recommendation 3.</p> <p><b>Recommendation 4:</b> <i>The Market Rules be changed so that DSM Providers pay Market Fees based on the quantity of energy dispatched for curtailment each year.</i></p> <p>Mr Forward noted that under the Market Rules a DSM provider is not required to pay any Market Fees. In principle, the IMO considers that all Market Participants should pay Market Fees, to contribute to the operating costs of the market. Mr Forward outlined several options, but noted that an energy based model would seem reasonable as it emulates the Market Fees paid by a peaking generator.</p> <p>Mr Sutherland asked what RCS was applied to DSM Programmes. Mr</p>	IMO

Item	Subject	Action
	<p>Forward replied that the requirements were the same as for generators.</p> <p>It was agreed that the Market Rules remain as they are regarding Market Fees for DSM Providers. Therefore the MAC did not endorse recommendation 4.</p> <p><b>Recommendation 5:</b> <i>The IMO undertake analysis to compare the three options (for the measurement of Relevant Demand (RD) presented in the concept paper), with a view to basing the RD calculation on the consumption of the whole DSM Programme during the peak demand times over the Hot Season.</i></p> <p>Mr Forward advised there are some issues regarding the Relevant Demand calculation. It was agreed that the discussion on this would be postponed until a more detailed session on DSM issues was held.</p> <p><b>Recommendation 6:</b> <i>The Market Rules be changed so that a DSP consisting of one or more CLs, is liable to pay refunds if at any time the program is not filled completely. This includes times where this is the result of a component facility being on Forced Outage.</i></p> <p>Mr Forward noted that under the Market Rules a DSM provider is not required to pay Capacity Cost Refunds, even if they fail to procure any Curtailable Loads into the programme, until such time as they fail to meet a Dispatch Instruction or fail a Reserve Capacity test. The IMO considers that this is a manifest error as a DSM provider will continue to receive payment for the capacity even if it is unavailable to the market.</p> <p>Mr Ken Brown queried whether the IMO intended to give DSM providers the opportunity to regain their accreditation. Mr Forward confirmed that this was the IMO's intention. Mr MacLean asked whether there would also be the option for a DSM provider to reduce its Capacity Credits if the requirement cannot be met. Mr Forward responded that this option already exists in the market.</p> <p>It was agreed that a DSP should have the same obligations as a Market Generator, therefore a DSP consisting of one or more CLs, will be liable to pay refunds if at any time the program is not filled completely.</p> <p><b>Recommendation 7:</b> <i>A DSM Programme be considered as a single Facility for the purpose of evaluating a request for return of Reserve Capacity Security.</i></p> <p><b>Recommendation 8:</b> <i>The Market Rules be amended to ensure that equivalent treatment of all facilities with regard to the return of Reserve Capacity Security is achieved.</i></p> <p>Mr Forward noted that recommendations 7 and 8 were both around non-discrimination and aligning the treatment of DSM with generation facilities.</p> <p>Mr MacLean noted that when a DSP achieved certification it did not necessarily imply that the DSP would continue to be able to meet its capacity obligations on an ongoing basis. Mr Zammit noted that testing is the aggregate of the Facility to 100%. Following a request by Mr Dykstra, this was confirmed by Mr Forward.</p>	

Item	Subject	Action
	<p>The MAC endorsed recommendations 7 and 8.</p> <p><b><i>Recommendation 9:</i></b> <i>The Market Rules be changed to remove Stipulated Default Loads.</i></p> <p>Mr Forward advised that discussion of this issue will be addressed in conjunction with the discussion planned for Recommendation 5.</p> <p><i>Action Point: The IMO to undertake the additional analysis regarding Relevant Demand and Stipulated Default Loads and present to the MAC.</i></p>	IMO
10	<p><b>ANNUAL REVIEW OF MAC COMPOSITION: STAKEHOLDER FEEDBACK</b></p> <p>The Chair provided background to the agenda item, noting that the IMO Board had requested that the IMO review the issues raised by a Market Participant about the MAC appointment process and pose specific questions for the MAC. These were regarding the compulsory class status of Verve Energy and Synergy and the IMO's ongoing role in the selection of discretionary members.</p> <p>Mr MacLean considered that Synergy and Verve Energy were major participants in the market and as such should continue to be Compulsory Class members of the MAC. Ms Ng, Mr McKay and Mr Cao all expressed support for Mr MacLean's position.</p> <p>In light of this, Mr Cao considered that more Discretionary Class members should be allowed. Mr Cao submitted that the MAC is participant related and not a panel of independent industry experts, and that either all participants should have a representative on the MAC or else none. Mr Cao noted that the MAC originally included representatives of all Market Participants, and that this had worked successfully.</p> <p>Mr Perrin noted that it had never been the case that all Market Participants had representatives on the MAC. However, Mr Perrin suggested that there may be some scope to include more observers in MAC meetings. Mr McKay supported this.</p> <p>The Chair noted that the WEM has a significant number of Market Participants and considered that increasing the size of the MAC to allow representatives from each Market Participant could be a difficult logistical exercise, although not impossible. Mr Dykstra expressed his opinion that a greatly increased membership of the MAC would not be workable.</p> <p>Ms Ng noted that the REGWG was working well despite its large size. Mr Forward commented that the REGWG had not yet dealt with any of the more contentious issues in its scope.</p> <p>Mr Zammit noted that DSM aggregators were not represented in the MAC. Mr Cao did not consider that this was an issue, on the basis that aggregators were not exposed to the same degree of financial risk as Market Customers and Market Generators.</p> <p>Mr Cao noted that he has recommended to the Minister for Energy that</p>	



Item	Subject	Action
	<p>Western Australia adopt the AEMO/AEMC model, where independent industry experts are appointed to the AEMC and the market operator is distinct from the rule change body.</p> <p>Mr Zammit considered that the MAC was a good forum, and that in his opinion the AEMC was not working as successfully.</p> <p>Mr Cao suggested that the ERA could be the Rule Change body for Western Australia.</p> <p>Mr Dykstra questioned whether the issue was around transparency noting that there is a reasonable amount of transparency in the operation of the MAC, and asked if there was a specific reason for concern. The Chair stated that the number of workshops and working groups initiated by the IMO, the publication of MAC papers to all participants prior to the MAC meetings and the extended membership of the REGWG were indications of the IMO's efforts to be open and transparent with regard to market evolution.</p> <p>Mr Cao responded that it was still the MAC that recommends Rule Change Proposals to the IMO. The Chair gave a recent example of where a proposal had general support from the MAC. Following a workshop with wider industry participation the IMO decided not to progress the proposal, despite the original MAC support.</p> <p>Mr Cremin submitted that there had been a rotation of membership so far, and suggested formalising the rotation of member organisations so that different participants could become MAC members. Mr Forward noted that the plan is to adopt a staged approach, gradually rolling over the membership of the MAC.</p> <p>Mr Dykstra would support Discretionary Members being elected by the participants in the relevant participant classes. Mr Dykstra noted that a vote by participants would be a better option than selection by industry groups.</p> <p>Mr Cao asked if organisation size is a criterion for selection, as it is for Synergy. Mr Dykstra considered that Synergy's status relates to its franchise market role rather than to its size.</p> <p>The Chair noted the agreement of the MAC with the continuation of Synergy and Verve Energy as Compulsory Class members. The Chair stated that the IMO will look into options for the selection of Discretionary Members.</p> <p><i>Action Point: The IMO to investigate and report to the MAC on options for the selection of Discretionary Members of the MAC.</i></p>	IMO
11	<p><b>GENERAL BUSINESS</b></p> <p>The MAC agreed to hold the next meeting of the MAC on 16 June 2010 and to extend the meeting length as required.</p> <p>There was no other business raised.</p>	
12	<p><b>NEXT MEETING</b></p> <p>MAC Meeting 29 will be held 16 June 2010 (2:00-5:00pm)</p>	
<b>CLOSED</b>		

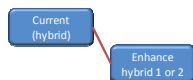
Market Advisory Committee

Item	Subject	Action
	The Chair declared the meeting closed at 5:55pm	

## Market Rules Design Review Development Pathway Decision: Approval and Timeframe

### Development pathway decision: Approval Framework

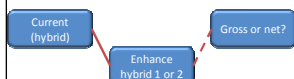
#### Pathway 1: Enhance Hybrid



- IMO: Consult with Minister on major initiatives that:
  - Amount to a major initiative; or
  - Likely to be of significant public interest (reg. 24 IMO regulations)
- MAC on behalf of Industry: pathway decision for A1 or A2
- Minister: Amended Operational Plan/Budget approval – will impact 2011/12 Market Fees.
  - A1: Detailed design can be accommodated within current budget (subject to Ministerial approval)
  - A2: Amended Operational Plan required prior to detailed design phase
- Rule Change Process:
  - IMO Board Approval (must be consistent with WMO, with regard to views from MAC/ submissions/ practicality & cost of implementation/ any applicable policy direction & any technical studies)
  - Minister's Approval (protected provisions)

## Development pathway decision: Approval Framework

### Pathway 2: Enhance hybrid as stepping stone towards mature design



- IMO: Consult with Minister on major initiatives that:
  - Amount to a major initiative; or
  - Likely to be of significant public interest (reg. 24 IMO regulations)
- MAC on behalf of Industry: pathway decision to enhance hybrid as a stepping stone towards mature design
- Minister: Amended Operational Plan/Budget approval for stepping stone (A1 or A2) – will impact 2011/12 Market Fees.
  - A1: Detailed design can be accommodated within current budget (subject to Ministerial approval)
  - A2: Amended Operational Plan required prior to detailed design phase
- ERA approval: Declared Market Project for options B/C, if project involves:
  - Major change to IMO or SM functions or major change to software and systems required to perform functions; and
  - Cost estimate to implement exceeds either IMO's or SM's Allowable Revenue by 15%
- Rule Change Process:
  - IMO Board Approval (must be consistent with WMO, with regard to views from MAC/ submissions/ practicality & cost of implementation/ any applicable policy direction & any technical studies)
  - Minister's Approval (protected provisions)



## Development pathway decision: Approval Framework

### Pathway 3: Straight to mature design



- IMO: Consult with Minister on major initiatives that:
  - Amount to a major initiative; or
  - Likely to be of significant public interest (reg. 24 IMO regulations)
- MAC on behalf of Industry: pathway decision to develop mature design (options B/C)
- ERA: Declared Market Project for options B/C, if project involves:
  - Major change to IMO or SM functions or major change to software and systems required to perform functions; and
  - Cost estimate to implement exceeds either IMO's or SM's Allowable Revenue by 15%
- Rule Change Process:
  - IMO Board Approval (must be consistent with WMO, with regard to views from MAC/ submissions/ practicality & cost of implementation/ any applicable policy direction & any technical studies)
  - Minister's Approval (protected provisions)



## Development pathway decision: Approval Framework

### Work still underway:

#### – ACCC approval:

- In 2006 the ACCC granted immunity (for 15 years) from prosecution for conduct under the Market Rules that might otherwise be considered to be anti-competitive under the TPA (sections 45 and 47).
- Will ACCC approval need to be sought for any of the options under consideration?
- This decision likely to come after the detailed design phase.

#### – Requirement for an Australian Financial Services Licence:

- To what extent do any of the options under consideration require an Australian Financial Services licence?

#### – Any changes required to other Regulatory instruments?

### Market Design Review: Timeframe Framework

	May-10				Jun-10				Jul-10			
Week ending	7/5	14/5	21/5	28/5	4/6	11/6	18/6	25/6	2/7	9/7	16/7	23/7
MAC meeting Dates			12th				16th				7th	
<b>High Level Design</b>												
May MAC meeting:		X										
Level 1: Balancing Support Contracts		X										
Approval Framework		X										
Timeframe framework		X										
Workshop washup		X										
Answers to workshop questions			X									
MAC members request for information			X									
MRDT meeting				X								
Development of Level 1 costings				X								
Develop concept paper v3 (Incl detail on BSC and Level 1 costings)				X								
MRDT meeting					X							
Papers to MAC						X						
June MAC meeting							X					
MAC to consider and provide comments							X	X				
MRDT to provide information requested by MAC							X	X				
Pricing Review level 1 (Issues in STEM/MCAP Pricing)							X	X				
Incentives review level 1 (Incl UDAP/DDAP and RC refunds)							X	X				
MRDT meeting							X					
MRDT meeting									X			
Papers to MAC									X			
July MAC meeting (Pathway discussion/decision)										X		
<b>Level 2 Design</b>												
Design commence												
Timing (Market) development												
Pricing development												
Incentive development												
Costing Development												
Benefits assessment												
Design paper development												
Papers to MAC (incl level 2 assessment)												
MAC meeting (including MAC endorsement decision, see note 1)												
<b>Rule Drafting</b>												
See note 2												
<b>Formal Rule Change Process</b>												

#### Notes:

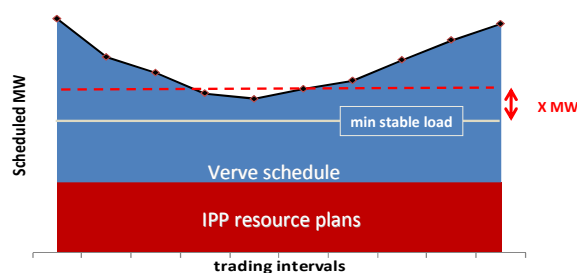
1. MAC will need to sign off on a design option and some of the critical design aspects. For Options A2, B, or C this will also be the trigger for issuing a tender for the development of IT systems.
2. This will need to begin prior to a formal decision on design. The rule drafting and change process will take around 3 months and the formal submission and approval process has been allocated 5 months.

## Opportunities for participation in balancing

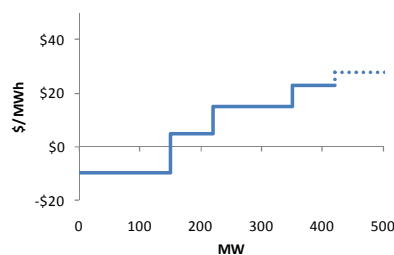
- Share thoughts with/ seek feedback from MAC members on possible opportunities for greater participation in balancing
- Consider options around decommitment of Verve coal units and alternatives to OCGT (oil or gas)
  - Higher value opportunities or exposures
  - More generic approach is problematic under current market design
- Assumption that pricing and cost allocation distortions are addressed to the extent practical under current design (i.e. cost reflectivity principle)

## Decremental balancing opportunity?

- SM forecasts balancing margin within 'x' MW of decommitment of Verve coal units



- MCAP curve comprised solely of Verve resources (gross supply curve)
  - & assuming other pricing distortions are also resolved to extent practical



## Decremental balancing opportunity?

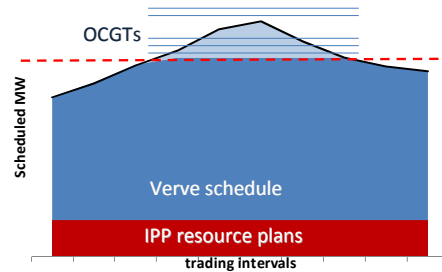
- SM advises market of decremental balancing opportunity/ calls for DecBSC offers from participants
- Indicates total quantity, timing and expected MCAP if decommitment occurs
- Participants submit DecBSC offers
  1. Turn Down Tranche (TDT):
    - Single P-Q tranche per facility (simplifies assessments/ dispatch)
    - 'Option' which SM can request at short notice
  2. Decommitment tranche DT:
    - P-Q, min/max times, lead time etc
    - Assessment more complex (need to determine how to evaluate)
    - If submitting DT, must submit TDT (even if zero if already at minimum)

## Decremental balancing opportunity?

- SM notifies participants their DecBSC options(s) have been accepted
- SM maintains operational communication with participants about prospects for their option(s) to be called
- SM advises market it has accepted options
- If required, SM would dispatch TDs first (i.e. before TDTs)
- If SM calls (dispatches) DecBSCs:
  1. TDT:
    - Eligible to set balancing price:  $MCAP = \min(\text{dispatched incBSC options, Verve dispatched balancing quantity})$
  2. DT:
    - Establishing MCAP tricky given lead times, multi period decisions
    - Will require careful analysis of approach

## Incremental balancing opportunity?

- SM forecasts balancing margin within 'x' MW of dispatching Verve OCGTs (gas or liquid) for energy
  - Does not require that all slow start units be committed (e.g. because of min run times)



- SM announces *incremental balancing support opportunity*
  - Forecast times/ MCAP if OCGTs called
  - Call for IPPs to provide incremental BSC (IncBSC) offers

## Incremental balancing opportunity?

- IPPs make IncBSC offers
  - 1 P-Q tranche per facility (simple assessment of offers)
  - Dispatchable on SM request (no lead time if called)
- If SM calls (dispatches) IncBSCs:
  - Eligible to set balancing price (balancing price will be no less than highest price incBSC option dispatched)
  - Insert called IncBSCs into MCAP curve, adjust relevant quantity



## Why not a more generic approach?

- Generic participation (under current balancing arrangement) will threaten market efficiency:
  - e.g. IPP renominations (of resource plans ) potentially invalidates gross commitment and dispatch of Verve as balancer