

Minutes

Meeting Title:	Market Advisory Committee (MAC)
Date:	20 October 2020
Time:	9:30 AM – 11:05 AM
Location:	Online via Microsoft Teams

Attendees	Class	Comment
Stephen Eliot	Chair	
Matthew Martin	Small-Use Consumer Representative	
Martin Maticka	Australian Energy Market Operator (AEMO)	
Dean Sharafi	System Management	
Sara O'Connor	Economic Regulation Authority (ERA) Observer	
Kate Ryan	Minister's Appointee – Observer	
Andrew Everett	Synergy	
Jacinda Papps	Market Generators	
Wendy Ng	Market Generators	
Daniel Kurz	Market Generators	
Tom Froad	Market Generators	
Patrick Peake	Market Customers	
Geoff Gaston	Market Customers	
Timothy Edwards	Market Customers	
Peter Huxtable	Contestable Customers	
Zahra Jabiri	Network Operator	To 10:55 AM

Also in Attendance	From	Comment
Jai Thomas	Energy Transformation Implementation Unit (ETIU)	Presenter
Matt Shahnazari	ERA	Presenter
Richard Cheng	ERA	Presenter
Jenny Laidlaw	RCP Support	Minutes
Laura Koziol	RCP Support	Observer

Also in Attendance	From	Comment
Adnan Hayat	RCP Support	Observer
Noel Schubert	Independent	Observer
Dimitri Lorenzo	Bluewaters Energy	Observer
Jo-Anne Chan	Synergy	Observer
Graham Pearson	Australian Energy Council	Observer
Erin Stone	Point Global	Observer
Nicole Markham	AEMO	Observer to 10:55 AM
Edwin Ong	AEMO	Observer
Dora Guzeleva	ETIU	Observer
Emma Forrest	ERA	Observer
Julian Fairhall	ERA	Observer

Apologies	From	Comment
<None>		

Item	Subject	Action
1	Welcome The Chair opened the meeting at 9:30 AM and welcomed members and observers to the 20 October 2020 MAC meeting.	
2	Meeting Apologies/Attendance The Chair noted the attendance as listed above.	
3	Minutes of Meeting 2020_09_08 Draft minutes of the MAC meeting held on 8 September 2020 were circulated on 18 September 2020. The MAC accepted the minutes as a true and accurate record of the meeting. Action: RCP Support to publish the minutes of the 8 September 2020 MAC meeting on the Rule Change Panel's (Panel) website as final.	RCP Support
4	Action Items There were no outstanding action items.	

Item	Subject	Action
5	MAC Market Rules Issues List (Issues List) Update	
	<p>The Chair noted that the MAC agreed at its 8 September 2020 meeting to review the Issues List against the Energy Transformation Strategy (ETS) reforms in February 2021 to determine which issues have been addressed by the ETS and which remain outstanding.</p>	
	<p>Issues 45 and 46: The Chair noted that ETIU has confirmed that it will consider issue 45 (transfer of responsibility for setting document retention requirements) and issue 46 (transfer of responsibility for setting confidentiality statuses) as part its Tranche 5 Amending Rules for the ETS. The MAC supported the Chair's suggestion to place issues 45 and 46 on hold pending the outcome of ETIU's consultation on the Tranche 5 Amending Rules.</p>	
	<p>Issue 22: The Chair noted that issue 22 (regarding changes to eliminate duplication of prudential burden on Market Participants) was on hold pending completion of AEMO's Reduction of Prudential Exposure (RoPE) 2 project. The RoPE 2 project was now complete and AEMO had suggested that the remaining issues should be left on hold and picked up again following the ETS reforms.</p>	
	<p>Mr Martin Maticka clarified that AEMO considered that the remaining issues were important but of a lower priority than other work currently in progress. The MAC agreed to leave issue 22 on hold pending the planned review of all Issues List issues in February 2021.</p>	
6(a)	Update on Changes to the Rule Change Governance Structure	
	<p>Ms Kate Ryan gave a presentation on the Government's proposed changes to the governance of the Western Australian energy sector. A copy of the presentation is available on the Panel's website.</p>	
	<p>Ms Ryan offered to meet with the MAC to discuss the draft Amending Rules for the transition of the Panel's functions to the Coordinator. The Chair noted that he was likely to schedule an additional MAC meeting in November 2020 to discuss the Pre-Rule Change Proposal: Method used for the assignment of certified reserve capacity to intermittent generators (RC_2019_03), and suggested that this might also be an appropriate time to discuss the draft Amending Rules and regulation changes. MAC members welcomed the opportunity to review and comment on the draft Amending Rules and agreed that a special MAC meeting should be held, if necessary.</p>	

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	<p>The following points were discussed:</p> <ul style="list-style-type: none"> The Chair asked what the effective deadline for regulation changes was before the start of caretaker period for the March 2021 State election. Ms Ryan advised that the caretaker period was expected to start in the first week of February 2021, which provided the opportunity for some routine government decision-making processes during December 2020 and the start of January 2021. However, the intent was to complete the changes by Christmas 2020. Mr Patrick Peake asked whether the MAC or some other industry consultation process would continue. Ms Ryan replied that the MAC would continue and that ETIU was looking at expanding the role of the MAC as part of the changes. <p>Ms Ryan acknowledged the perceived conflict of interest, as the Government owns assets in the sector and, while the Minister already had the power to make Amending Rules, the proposed amendments entrenched that further. For this reason, the intent was to try to use the MAC and the Gas Advisory Board (GAB) as an important check and balance on the exercise of decision-making power by the Coordinator and the Minister.</p> <p>EPWA was considering elevating the role of the MAC and probably introducing an independent Chair, along with some explicit requirements for the Coordinator to have regard to the advice of the MAC as they go through the decision-making process.</p> <ul style="list-style-type: none"> Mrs Jacinda Papps asked whether Protected Provisions would continue to exist. Ms Ryan replied that the Minister would continue to be the ultimate decision-maker on the kind of rules that were currently Protected Provisions, along with any rules that related to functions of the Coordinator. <p>Ms Ryan noted that the Minister will also be required to approve the Amending Rules for any Rule Change Proposal proposed by the Coordinator.</p> <ul style="list-style-type: none"> In response to questions from Ms Wendy Ng, Ms Ryan confirmed that an independent Chair was also being considered for the GAB. The MAC and GAB Chairs would not necessarily be the same person, although it may be convenient for one person to fill both roles. Ms Ryan invited MAC members and attendees to contact her or Ms Dora Guzeleva if they wished to discuss the proposed changes to the governance arrangements. 	

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6(b)	Update on the Energy Transformation Strategy	<p>Mr Jai Thomas provided the following updates on the ETS:</p> <ul style="list-style-type: none"> • The Government launched the first Whole of System Plan (WOSP) at an Australian Institute of Energy event on 12 October 2020. A range of information on the WOSP was available on the Brighter Energy Future and Energy Policy WA websites. <p>An industry forum to discuss the WOSP was scheduled for 29 October 2020.</p> <ul style="list-style-type: none"> • The one-week consultation period on the revised Tranche 1 Amending Rules (which include changes relating to Generator Performance Standards) closed on 19 October 2020. • The draft Tranche 2 Amending Rules were released for public consultation on 21 October 2020. ETIU intended to hold five Transformation Design and Operation Working Group (TDOWG) meetings to discuss the Tranche 2 Amending Rules, and were also happy to meet with stakeholders on a one-on-one basis. • The draft Tranche 3 Amending Rules, which relate to the Reserve Capacity Mechanism (RCM) and the proposed Network Access Quantity (NAQ) framework, were expected to be released for public consultation by 23 October 2020. <p>ETIU expected to hold two TDOWG meetings in early to mid-November 2020 to discuss the Tranche 3 Amending Rules. Stakeholders could also contact Mr Ashwin Raj or Ms Guzeleva to arrange a one-on-one discussion.</p> <ul style="list-style-type: none"> • The <i>Electricity Networks Access Code Amendments (No. 2) 2020</i> were gazetted on 18 September 2020. • During September 2020, ETIU consulted on an Issues Paper: Distributed Energy Resources (DER) Orchestration Roles and Responsibilities. ETIU received around 12 submissions, which were published on 16 October 2020 (see https://www.wa.gov.au/government/document-collections/previous-consultation-process-distributed-energy-resources). • The first phase of the DER register project commenced, with the transfer from Western Power to AEMO of DER historical records for 180,000 of the approximately 300,000 existing DER installations.

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7(a)	AEMO Procedure Change Working Group (APCWG) Update	
	Mr Maticka provided the following updates on AEMO's Market Procedures:	
	<ul style="list-style-type: none"> the amendments to the Market Procedure: Declaration of Bilateral Trades and the Reserve Capacity Auction arising from Procedure Change Proposal: AEPC_2020_10 commenced on 16 October 2020. AEMO had not held or scheduled any APCWG meetings since the 8 September 2020 MAC meeting. 	
7(b)	BRCP Working Group Update	
	Ms Sara O'Connor noted that the ERA published Procedure Change Proposal: calculation of benchmark reserve capacity price (EEPC_2020_02) on 15 September 2020. The ERA received one submission during the consultation period, which closed on 14 October 2020.	
	The ERA also held a second and probably final BRCP Working Group meeting on 6 October 2020. The Working Group provided general support for the ERA's proposed changes to the Weighted Average Cost of Capital parameters.	
	The ERA governing body was due to approve the Procedure Change Report on 4 November 2020 and to publish the report within the following two days. This would allow AEMO to use the revised Market Procedure to calculate the Benchmark Reserve Capacity Price for the 2021 Reserve Capacity Cycle.	
8(a)	Overview of Rule Change Proposals	
	The paper was taken as read. The Chair provided the following updates:	
	<ul style="list-style-type: none"> The Draft Rule Change Report for Rule Change Proposal: Administrative Improvements to the Outage Process (RC_2014_03) was due to be published by the end of October 2020. The proposed submission period was five weeks, but the Panel was aware that this timeframe might be problematic for some Market Participants, given the large volumes of work for the ETS scheduled for November 2020. Stakeholders were welcome to contact RCP Support if they wished to seek an extension. 	
	RCP Support also intended to review the recently published draft Tranche 2 Amending Rules and follow up with ETIU regarding any discrepancies between the draft Tranche 2 Amending Rules and the proposed Amending Rules for RC_2014_03.	

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	<ul style="list-style-type: none"> The next step for Rule Change Proposal: The Relevant Demand calculation (RC_2019_01) was for RCP Support to develop a straw man proposal for an X of Y dynamic baseline. The Panel had de-prioritised RC_2019_01 in favour of RC_2014_03 and RC_2019_03, but intended to restart work on the proposal as soon as resources were available. 	
8(b)	<p>Capacity valuation method for intermittent generators – ERA’s proposed method: Rule Change Proposal</p> <p>Dr Matt Shahnazari provided an update to the MAC on the ERA’s progress in developing Rule Change Proposal: capacity valuation method for intermittent generators (RC_2019_03). A copy of the ERA’s presentation is available in the meeting papers.</p> <p>Ms Laura Koziol noted that RCP Support had the following concerns regarding the ERA’s proposed changes to the Relevant Level Methodology (RLM):</p> <ul style="list-style-type: none"> The inputs to the proposed RLM included the expected generation fleet, including intermittent and non-intermittent generators. The RLM produced Certified Reserve Capacity (CRC) values for the intermittent generators, which were then used as an input to the NAQ process, which determined the NAQ and Capacity Credits for all generators. <p>A risk existed that the actual generation fleet could be different from the expected fleet, and that the ‘incorrect’ input values in the RLM could adversely affect the accuracy of the output CRC values.</p> <p>The ERA was investigating whether the potential impact of the difference was material. If the potential impact was not found to be material, then RCP Support considered that the issue could be ignored for now and addressed at a later time.</p> <p>However, if the potential impact was material, then the issue would need to be addressed, either by the ERA in the Rule Change Proposal or by the Panel when it processed the proposal. For the Panel, the options would be to either reject the proposal or approve it in an amended form. The amended form could involve, for example, the inclusion of some form of iteration between the RLM and NAQ processes, or implementation of a ‘rule of thumb’ method.</p> <ul style="list-style-type: none"> RCP Support held a concern that the proposed RLM might be inconsistent with the Planning Criterion and associated reserve margin, and therefore threaten system reliability. 	

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	<p>This was because the current RCM requires AEMO to acquire sufficient Reserve Capacity to meet a one-in-ten-year peak demand, which includes a reserve margin that assumes around 10% of accredited capacity will not be available during peak demand periods.</p> <p>RCP Support's concern was that the proposed RLM may assign more CRC to some intermittent generators than they would actually be expected to make available with a 90% certainty during such a one-in-ten-year peak demand event.</p> <p>If the Panel concluded that this was a material issue and the proposed RLM threatened system reliability, then it would be likely to either reject the Rule Change Proposal or approve it in an amended form. It was likely that an amended method would tend to assign lower CRC values than the proposed RLM.</p>	
	<ul style="list-style-type: none"> The original Pre-Rule Change Proposal for RC_2019_03 did not address the allocation of CRC to hybrid solar/wind facilities or account for the impacts of storage facilities. As noted by Dr Shahnazari, the ERA was revising its Pre-Rule Change Proposal to account for these matters; and the Panel would need to assess the ERA's proposed approach to dealing with these facilities. 	
	<p>The following points were discussed:</p>	
	<ul style="list-style-type: none"> Mr Timothy Edwards noted that Metro Power Company would be interested in testing the proposed RLM to further understand the implications and provide feedback on the issues identified. Mr Peake questioned whether assigning CRC to intermittent generators based on their load carrying capacity underestimated the ability of these generators to contribute to system reliability compared with conventional generators, which were assigned CRC based on their absolute capacity. Mr Peake noted that in Ireland all generators were assessed on the basis of their load carrying capacity. <p>Dr Shahnazari replied that the effective load carrying capability (ELCC) method was technology-agnostic and could be applied to any sort of generator with any technology, provided the necessary input data was available. However, for conventional gas or coal plant the ELCC method produced much the same results as the current absolute capacity method.</p> <ul style="list-style-type: none"> Mr Dean Sharafi noted that AEMO had previously expressed some concerns about the ERA's Pre-Rule Change Proposal and considered that those concerns had 	

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	<p>not been addressed. Mr Sharafi advised that AEMO's main concern was about reliability, and that the proposed RLM did not target the peak demand condition, because the Planning Criterion was based on a one-in-ten-year extreme weather event, and RC_2019_03 did not address that requirement.</p> <p>Mr Sharafi suggested that the observed historical intermittent generation output will probably not align with the extreme weather criteria in the Planning Criterion and questioned how the proposed RLM will account for this.</p> <p>Mr Sharafi also considered the proposed process was onerous, very iterative and circular with the new NAQ process; and questioned whether the proposal to run the RLM using the expected resource mix in the target Capacity Year would reduce or remove the need for iteration in the process.</p>	
	<ul style="list-style-type: none"> • Mr Sharafi advised that, given the likely timing of the Rule Change Proposal, AEMO could implement the proposed RLM for the 2022 Reserve Capacity Cycle. • Dr Shahnazari noted that the ERA did not intend to propose any form of iteration in RC_2019_03. The proposed RLM was in nature able to account for any possible interaction, for example, due to the effect of network constraints. However, the policy position from Government had been to run the NAQ process after receiving the CRC values from the RLM. 	
	<p>The ERA did not discuss the impacts of network constraints of the allocation of Capacity Credits with stakeholders during consultation on the RLM in 2018-19, because the future market design was for CRC to be assigned without considering network constraints, as these would be accounted for in a subsequent process. Amendments to change the NAQ process and combine it with the proposed RLM were out of scope for the ERA.</p>	
	<p>Dr Shahnazari also noted that the ERA did not really know how material the interaction effect might be. While not wishing to speculate on the matter, Dr Shahnazari suggested that the RLM and NAQ arrangements could be iterated in the future if AEMO considered that the interaction effect was material.</p>	
	<p>Dr Shahnazari noted that AEMO recently indicated that it wanted to run short term and medium term projected assessment of system adequacy studies based on system adequacy analysis and loss of load expectation (LOLE),</p>	

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	<p>and noted the similarity with the proposed RLM, which involved a system adequacy analysis based on a measure of system reliability (ELCC).</p> <p>The Chair reiterated that RCP Support was considering whether the impact of the interaction between the RLM and NAQ processes was material. The Chair agreed with Mr Sharafi that it could be difficult and costly to incorporate iterations into the proposed processes.</p> <p>Dr Shahnazari considered that one would need to develop a method that combined the RLM and NAQ processes to determine if the interaction effect was material. The ERA had run a sensitivity analysis based on what would happen if a few generators withdrew their applications during the CRC process. In one scenario, which was based on the 2018 Reserve Capacity Cycle, with 110 MW of solar facilities withdrawing their applications, the effect on the remaining facilities' capacity value was very small (in the order of 5 MW).</p> <p>The Chair agreed that the best approach to consider the potential materiality of the issue was a sensitivity analysis.</p> <ul style="list-style-type: none"> • Dr Shahnazari questioned what alternatives existed to the proposed RLM, given that the current method contained conceptual errors and was therefore unreliable. The ERA had looked at other jurisdictions that at the time used a rule of thumb method for capacity valuation. However, these jurisdictions still needed to run probabilistic system adequacy analyses every few years to update the parameters used in the rule of thumb method. <p>Dr Shahnazari considered that the best practice approach (which was recommended by the Institute of Electrical and Electronics Engineers and the International Energy Agency, and widely adopted across jurisdictions with similar planning criteria based on meeting a one-in-ten year peak demand event) was an ELCC analysis at the target level of LOLE.</p> <ul style="list-style-type: none"> • Dr Shahnazari noted that ETIU proposed to require Market Participants to specify a minimum Capacity Credit quantity when seeking CRC for a new facility. If the RLM assigned a level of CRC below the specified minimum quantity the application would be automatically withdrawn. This would partly, but not completely, manage the risk of changes to the expected generator fleet. • Dr Shahnazari suggested that, in the future, as more intermittent generators enter the Wholesale Electricity Market (WEM), the periods of high reliability stress might no 	

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	<p>longer be the highest demand periods, but instead periods that have a high demand combined with low intermittent generator availability. The proposed RLM accounted for this development by not restricting its analysis to extreme peak demand periods.</p>	
	<ul style="list-style-type: none"> • Dr Shahnazari noted that the ERA was considering whether the specification of a target level of LOLE would have a material effect on RLM outputs. If the ERA found this to be the case, it intended to include a target LOLE level in the Rule Change Proposal. 	
	<p>Dr Shahnazari noted that different jurisdictions had different interpretations of the one-in-ten-year criterion (e.g. some North American jurisdictions used an LOLE of 24 hours in 10 years, while the United Kingdom used 3 hours per year). However, the choice of interpretation was unlikely to materially affect the value of the intermittent fleet ELCC.</p>	
	<ul style="list-style-type: none"> • Mr Sharafi indicated that AEMO would follow up with the ERA separately regarding its outstanding concerns. • In response to a question from Ms Ng, Ms Guzeleva confirmed that the proposed requirement for Market Participants to specify a minimum Capacity Credit level would apply to new generators only. • Ms O'Connor considered AEMO's suggestion that the ERA had not addressed AEMO's concerns about the proposed RLM was misleading. Ms O'Connor noted that AEMO sat on the stakeholder group when the ERA conducted its review of the current RLM and developed the proposed RLM. AEMO also provided a submission to the draft report for the review that was supportive of the approach suggested by the ERA, and this submission was available on the ERA's website. 	
	<p>AEMO also provided the ERA with 14 questions outlining its concerns after the ERA presented RC_2019_03 to the MAC in 2019. The ERA had fully responded to each of the questions, with an offer to respond to additional questions or concerns.</p>	
	<p>The Chair suggested that AEMO's outstanding questions were probably similar to those noted by Ms Koziol earlier in the meeting.</p>	
	<p>The Chair noted that the ERA planned to present a revised Pre-Rule Change Proposal to the MAC for discussion in November 2020, and then formally submit the Rule Change Proposal in December 2020. Given the timelines for the Standard Rule Change Process, the Chair questioned whether</p>	

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	<p>AEMO would have time to implement the new RLM for the 2021 Reserve Capacity Cycle. RCP Support was already working on the analysis for the Rule Change Proposal to ensure it can be processed as quickly as possible.</p> <p>The Chair suggested that the MAC meet on 17 November 2020 to discuss the revised Pre-Rule Change Proposal and the proposed changes to the energy sector governance arrangements. Mrs Papps, Ms Ng, Ms Ryan, Mr Maticka and Mr Peter Huxtable indicated that they were available on the proposed date, and the Chair asked remaining members to contact RCP Support by 27 October 2020 if they were unavailable on 17 November 2020.</p>	
	<p>Action: MAC members to advise RCP Support by Tuesday 27 October 2020 if they are unable to attend a MAC meeting on 17 November 2020.</p>	<p>All</p>
<p>9</p>	<p>2020 Review of Two Market Rules Intended to Incentivise the Availability of Generators</p>	
	<p>Mr Richard Cheng gave a presentation on the draft report findings of the ERA's 2020 review on two market rules (clauses 4.11.1(h) and 4.26.1C) intended to incentivise the availability of generators. A copy of the ERA's presentation is available in the meeting papers.</p>	
	<p>Mr Cheng noted that the consultation period for the draft report closed at 4:00 PM on 13 November 2020. Due to the 31 December 2020 publication deadline for the final report, the ERA would not be able to grant any extensions to the consultation period.</p>	
	<p>Ms Jenny Laidlaw asked why the ERA proposed to reduce the threshold levels associated with clause 4.11.1(h) to zero, and what the guidance to AEMO on the application of clause 4.11.1(h) would entail.</p>	
	<p>Mr Cheng replied that the reason for the reduction of the thresholds to zero was the relatively arbitrary nature of the figures. The guidance would need to stipulate the factors that AEMO should consider. Several of those factors were already in the Market Rules, but the ERA would need to expand on that information to ensure that Market Participants were fully aware of what was being calculated and how AEMO would decide which generators to assess.</p>	
	<p>For example, if a generator was of a material nature to the WEM and reducing its CRC would not be conducive to the Wholesale Market Objectives, then, as per the current Market Rules, AEMO</p>	

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	<p>would not reduce that generator's CRC. The ERA would put guidance to this effect in the proposed document.</p> <p>There were also questions about how to estimate the likely future output of generators. The ERA would need to determine what it should look at for developing the guidance, in consultation with AEMO and industry.</p> <p>Ms Laidlaw noted that there were two different approaches to assigning Capacity Credits and calculating capacity refunds. For example, under the current Market Rules Scheduled Generators were usually assigned Capacity Credits based on what they could generate at 41 degrees, and the potential for some of them to be unavailable during peak periods was handled through the 7.6% reserve margin. In contrast, many American jurisdictions used an 'unforced capacity' (UCAP) approach, where Capacity Credits were de-rated to reflect some expectation of a generator's forced outages. Generators were still expected to offer their full capacity under a UCAP regime, and the capacity refund arrangements were correspondingly different.</p> <p>Ms Laidlaw was uncertain whether the ERA considered the WEM had a flawed UCAP regime that needed some adjustments, or whether it considered the WEM should change to a UCAP regime. Mr Cheng replied that the review was meant to highlight the differences between the two regimes. The ERA had put forward what it believed was a potentially more efficient, or more accurate regime (i.e. the UCAP regime), but acknowledged that currently the WEM used the reserve margin approach. The ERA considered its proposed changes would act as a foundational stepping-stone towards moving to a UCAP regime.</p> <p>Ms Laidlaw asked what CRC the guidance would propose for a Scheduled Generator with an expected 15% outage rate. Mr Cheng replied that it would be necessary to determine the gap between the expected outage rate and what was already accounted for through the reserve margin, and that the facility's CRC might be reduced to the extent of that gap. However, Mr Cheng noted that AEMO might decide not to reduce the CRC for other reasons. The ERA sought to allow flexibility for AEMO to do what it thought was necessary, but also to allow it to reduce the CRC of generators that are potentially not going to provide the required level of adequacy.</p>	

10 General Business

No general business was discussed.

The meeting closed at 11:05 AM