Independent Market Operator

Market Advisory Committee

Minutes

Meeting No.	38
Location	IMO Board Room Level 3, Governor Stirling Tower, 197 St Georges Terrace, Perth
Date	Wednesday 11 May 2011
Time	Commencing at 2.00 pm

Attendees	**Class**	**Comment**
Allan Dawson	Chair	
Troy Forward	Compulsory – IMO	
Stephen MacLean	Compulsory – Customer	2.10–3.25 pm
Ken Brown	Compulsory – System Management	
Andrew Everett	Compulsory – Generator	
Neil Gibbney	Compulsory – Network Operator	Proxy
Steve Gould	Discretionary – Customer	
Corey Dykstra	Discretionary – Customer	
Michael Zammit	Discretionary – Customer	
Peter Huxtable	Discretionary – Contestable Customer Representative	
Andrew Sutherland	Discretionary – Generator	
Ben Tan	Discretionary – Generator	2.10–3.25 pm
Wana Yang	Observer – ERA	
Paul Biggs	Small Use Customer Representative	
Nerea Ugarte	Minister's appointee	
Apologies	**Class**	**Comment**
Shane Cremin	Discretionary – Generator	
Peter Mattner	Compulsory – Network Operator	
Also in attendance	**From**	**Comment**
Jenny Laidlaw	IMO	Minutes
Brendan Clarke	System Management	Presenter
Matt Schultz	Energy Response	Observer
Pablo Campillos	EnerNOC	Observer
Alasdair Macdonald	IMO	Observer
Courtney Roberts	IMO	Observer
Zoe Davies	IMO	Observer
Greg Ruthven	IMO	Observer

Item	Subject	Action
1.	**WELCOME** The Chair opened the meeting at 2.00 pm and welcomed members to the 38th meeting of the Market Advisory Committee (MAC).	
2.	**MEETING APOLOGIES / ATTENDANCE** Apologies were received from: • Shane Cremin • Ben Tan (late) • Peter Mattner The following other attendees were noted: • Neil Gibbney (Proxy for Peter Mattner) • Brendan Clarke (Presenter) • Matt Schultz (Observer) • Pablo Campillos (Observer) • Alasdair Macdonald (Observer) • Courtney Roberts (Observer) • Zoe Davies (Observer) • Greg Ruthven (Observer)	
3.	**MINUTES OF PREVIOUS MEETING** The minutes of MAC Meeting No. 37, held on 13 April 2011, were circulated prior to the meeting. The following amendments were agreed. ***Page 12: Section 9: MEP: Balancing and Load Following Ancillary Services Markets*** • “Mr Dykstra considered that the proposal appeared to be the best option available to increase participation in balancing within the constraint of the current market design. Mr Dykstra agreed with Mr Brown that balancing will be an issue in the WEM, perhaps not this year but eventually. However, Mr Dykstra did not support the proposal, considering that the net benefits indicated in the Cost Benefit Assessment (CBA) were low and ~~not worth~~ may not outweigh the time, effort and risks involved. Mr Everett was supportive of the move to competitive balancing and the direction of the proposed design, but noted that that he was proceeding in good faith with regards to the detail~~ed design process~~, for example around timing and rebidding. Mr Everett noted that he had elaborated his concerns over the inclusion of Load Following Ancillary Services (LFAS) in the core proposal, considering that LFAS issues should not be allowed to put the balancing component of the proposal at risk.” *Action Point: The IMO to amend the minutes of Meeting No. 37 to reflect the points raised by the MAC and publish on the website as final.*	**IMO**

Item	Subject	Action
4.	**ACTIONS ARISING** There were no outstanding action items.	
5a	**MARKET RULE CHANGE OVERVIEW** The MAC noted the Market Rule Change Overview.	
5b	**ANCILLARY SERVICES PAYMENT EQUATIONS [PRC_2010_27]** Mr Troy Forward noted that since the previous MAC meeting the IMO had reviewed and revised the Pre Rule Change Proposal: Ancillary Services Payment Equations (PRC_2010_27). The changes made include: • removal of the cost calculation components of the proposal; • separate allocation of Load Following Ancillary Services (LFAS) costs for Peak and Off-Peak periods, to allow for a more appropriate allocation of costs for solar facilities; and • new provisions to allow Intermittent Generators with a negligible impact on the Load Following requirement to seek an exemption from funding LFAS, similar to the existing exemption option available for Spinning Reserve costs. Mr Forward advised MAC members that the updated Pre Rule Change Proposal would probably be distributed to MAC members out of session for review, prior to its formal submission into the rule change process. In response to a question from Mr Andrew Everett, there was some discussion about the impact of PRC_2010_27 and the Market Evolution Program (MEP) proposal for a competitive LFAS market on Generator Trip Reserve payments. Mr Forward noted that the IMO was trying with PRC_2010_27 to treat LFAS cost allocation as a standalone issue, in order to facilitate its progress. Mr Everett noted that he thought that Generator Trip Reserve may have been overlooked in the MEP proposal. Mr Forward responded that it was understood that the MEP solution for Ancillary Services needed to be complete and consistent with this rule change.	
6a	**MARKET PROCEDURE CHANGE OVERVIEW** Mr Forward noted that the Market Procedure overview included in the papers for this meeting incorrectly showed the Next Step for the Reserve Capacity Security procedure as “awaiting further comments from members due 11 April 2011”. Mr Forward also noted that the IMO had identified some additional amendments that needed to be made to the Procedure Change Proposal: Registration of Demand Side Programmes and the association of Non-Dispatchable Loads (Transitional Arrangements). The IMO had issued a Public Notice to this effect on 27 April 2011. The IMO now proposed to issue an addendum to the Market Procedure and then	

Item	Subject	Action
	undertake an informal consultation process, to ensure that the necessary timelines are met while maintaining sufficient time for public review. The IMO will also reconvene the IMO Procedure Change and Development Working Group to discuss the revised Market Procedure. Mr Michael Zammit questioned the impact of the proposed approach on the timelines for the Rule Change Proposal: Curtailable Loads and Demand Side Programmes (RC_2010_29). Mr Forward responded that the proposed start of the transition period has moved from 1 June 2011 to 1 July 2011, but the main changes are still scheduled (subject to the decision of the IMO Board) to commence on 1 October 2011. Mr Forward explained that it would not be possible to register a Demand Side Facility until 1 October 2011 as it would not yet be a recognised Facility Class. However, the transitional procedure would allow participants to pre-register their Demand Side Programmes so that they would be ready for operation when the new Amending Rules commence on 1 October 2011. Mr Forward considered that a three month transition period starting 1 July 2011 should give participants sufficient time to pre-register their Demand Side Programmes and Associated Loads. The MAC noted the overview of recent and upcoming procedure changes.	
7a	**PLACEMENT OF CURTAILABLE/DISPATCHABLE LOADS IN THE DISPATCH MERIT ORDER [CP_2011_01]** Mr Brendan Clarke provided MAC members with a presentation on System Management's Concept Paper: Placement of Curtailable/ Dispatchable Loads in the Dispatch Merit Order (CP_2011_01). A copy of the presentation is available on the IMO's website. Mr Clarke submitted that there was a manifest error in the Market Rules in relation to the dispatch of Curtailable Loads. Clause 7.6 of the Market Rules specifies that, subject to various conditions, System Management should issue Dispatch Instructions in the following order: 1. Verve Energy non-liquid; 2. Independent Power Producer (IPP) non-liquid; 3. Verve Energy liquid; and 4. IPP liquid. Mr Clarke noted that Curtailable Loads and Dispatchable Loads cannot specify their fuel nominations (liquid or non-liquid), and so it is unclear whether they belong in the second group (IPP non-liquid) or the fourth group (IPP liquid). During the February 2011 Varanus Island incident System Management dispatched a large number of Curtailable Loads, considering them as belonging to the non-liquids group. However, some of these Loads may have actually used liquid fuel during their dispatch (i.e. in their backup generators). Further, Appendix 1 of the Market Rules, which specifies the Standing Data for Curtailable Loads, implies that these Facilities belong in the fourth group (IPP liquids), in that their pay-as-bid price for dispatch can be set to the Alternative Maximum STEM	

Item	Subject	Action
	Price. Mr Clarke considered that the two parts of the Market Rules (clause 7.6 and Appendix 1) are not aligned. Mr Zammit questioned why the issue had not been identified previously, noting that Curtailable Loads had been dispatched before (in 2007/08). Mr Ken Brown responded that in previous dispatches System Management had treated Curtailable Loads as belonging to the liquids group. Mr Brown also noted the restriction placed on System Management's use of Curtailable Loads under clause 7.7.4(c) of the Market Rules. There was some discussion about the relationship between clause 7.6 and Appendix 1. Mr Corey Dykstra considered that there was not necessarily an inconsistency between the two sections. Mr Clarke disagreed, reiterating System Management's view that an inconsistency was implied. The Chair considered that an inconsistency would only exist if a Curtailable Load was assumed to be in the IPP non-liquids group, noting that Mr Clarke had mentioned that some of these Loads may have been using liquids. Mr Clarke responded that System Management wanted to make the correct group for Curtailable Loads explicit in the Market Rules. Mr Zammit suggested that Curtailable Loads could be assigned to a fifth, separate group as their characteristics differed from those of generators. The Chair noted that under the proposed MEP balancing market the current Dispatch Merit Order structure would be replaced and that there would effectively be only one. Mr Clarke replied that System Management still wanted to resolve the issue as the market would go through another summer before a new balancing market was implemented. The Chair questioned which group System Management proposed for Curtailable Loads. Mr Clarke considered that it could be possible to require Curtailable Loads to nominate their fuel in the same manner as generators, but there was general agreement that this would be a very complicated approach. Mr Clarke noted that System Management sought the views of MAC members, but suggested that the IPP liquids group be chosen. Mr Clarke proposed that either System Management or the IMO submit a Rule Change Proposal in line with the agreed approach. Mr Stephen MacLean queried whether Mr Zammit's suggestion of a new, separate group for Curtailable Loads should be given further consideration. Mr Zammit again noted the differences between Curtailable Loads and other facility types, but considered that of the existing groups he would suggest the IPP liquids group. Mr Dykstra considered that it made sense to place Curtailable Loads into the IPP non-liquids group, to help avoid the use of Verve Energy liquids. Mr Dykstra did not see any conflict in this interpretation. Mr Brown disagreed, considering that there was a conflict in the commercial sense. Mr Dykstra noted that there was still an overriding rule limiting the use of	

Item	Subject	Action
	these facilities. Mr MacLean replied that the status quo still left System Management uncertain about the order in which it should dispatch facilities. There was some discussion about the information available to System Management in the Dispatch Merit Order. Mr Everett queried whether facilities should not simply be dispatched on merit. Mr Brown considered that System Management would always need to make a decision about maintaining the future availability of a Curtailable Load, but would need to make these decisions more often if the Loads were assigned to the non-liquids group. The Chair suggested that Curtailable Loads be assigned to the IPP liquids group, given that this would only be for one more summer. Mr Zammit questioned whether this would be the easier change. The Chair replied that this seemed to be the case based on Mr Brown's comments. Mr Forward questioned whether the clarification could be achieved through a Market Procedure rather than a rule change. Mr MacLean considered that since the problem was a conflict between two rules a procedure may not be able to provide the solution. The Chair considered it a reasonable assumption that based on price Curtailable Loads belonged in the IPP liquids group. The Chair considered that this was not so much a manifest error in the Market Rules but an omission, and that Appendix 1 offered clear guidance as to the appropriate interpretation. Mr Clarke proposed that System Management submit a Rule Change Proposal to clarify the allocation of Curtailable Loads to the IPP liquids group. There was some discussion about the wording of the proposed amendments. *Action Point: System Management to develop a Rule Change Proposal to clarify that for the purpose of issuing Dispatch Instructions System Management must consider Curtailable Loads to be facilities using liquid fuel.*	**System Mgmt**
7b	**PENETRATION OF DSM IN RESERVE CAPACITY PROCUREMENT [CP_2011_02]** Mr Brendan Clarke provided MAC members with a presentation on System Management's Concept Paper: Penetration of DSM in Reserve Capacity Procurement (CP_2011_02). A copy of the presentation is available on the IMO's website. Mr Clarke noted that the title of CP_2011_02 was incorrect in the meeting papers, and apologised to MAC members for any confusion resulting from the error. Mr Clarke explained System Management's issue was that the penetration of Demand Side Management (DSM) allowed in the SWIS leads to a heightened risk to System Security. In response to a question from Mr Pablo Campillos, Mr Clarke confirmed that this was because of the restricted nature of DSM. Mr Clarke noted that in the 2010 Statement of Opportunities (SOO) the	

Item	Subject	Action
	total capacity requirement for the 2012/13 Capacity Year was given as 5501 MW. The amount of allowable DSM under the IMO's interpretation of clause 4.5.12 of the Market Rules was 1404 MW, 26 percent of the total capacity requirement. The Chair queried whether these numbers were quoted in the 2010 SOO. Mr Brown confirmed that this was the case, adding that the problem was around the correct interpretation of clause 4.5.12. Mr Clarke noted that System Management disagreed with the IMO that clause 4.5.12 should relate to: • the use of 50 percent Probability of Exceedance (POE) load requirements; • the use of DSM to supply the reserve margin; or • the probabilistic criterion (0.002 percent Unserved Energy). Mr Brown noted that System Management needed to allow many outages over a Capacity Year while maintaining the reserve margin. This meant that DSM was not suitable to cover the reserve margin as it was only available for a short period each year. Mr Clarke noted that the reserves in question were usually supplied by synchronised generation or Interruptible Loads that could provide the rapid response required. There was some discussion about the use of the probabilistic criterion (0.002 percent Unserved Energy). Mr Greg Ruthven considered that both criteria mentioned under clause 4.5.9 needed to be considered. Mr Brown responded that the Unserved Energy criterion was not yet the deciding factor for capacity requirements in the SWIS. The Chair questioned whether the methodology for the calculations under clause 4.5.12 has changed. Mr Ruthven replied that the same methodology had been used for the previous two years. Mr Brown considered that no other power system would permit a level of DSM penetration greater than 10 percent. In response to a question from the Chair, Mr Ruthven advised that the IMO had held discussions with System Management about their concerns and had just finalised the appointment of a consultant to investigate the issue further. The Chair queried what System Management sought from the MAC in relation to the issue. Mr Clarke replied that System Management wished the MAC to note the issue and the IMO to further consider it prior to the preparation of the next SOO. Mr MacLean queried whether System Management could provide more detail on the level of DSM penetration allowed in other jurisdictions. Mr Clarke noted that PJM allowed a maximum penetration of seven percent. Mr Brown agreed to provide some additional information to MAC members. Mr Campillos considered that while the SWIS was relatively high in terms of actual penetration, care was required when comparing markets due to differences in how other systems forecasted their requirements. *Action Point: System Management to provide MAC members with additional information around the levels of Demand Side Management*	**System Mgmt**

Item	Subject	Action
	penetration allowed in other electricity markets. Mr Clarke clarified that the issue was not around a limit on DSM but on the minimum capacity that needed to be provided by generation. Mr Zammit noted that the discussion had been mainly about the level of DSM reserve capacity, and questioned whether this level would still be the same if there was additional (faster acting) DSM capacity available that could help keep frequency. There was some discussion about the different services that loads might be able to provide to the market. Mr Brown reiterated that his problem was with the minimum generation requirement and not with the volume of DSM. Mr Zammit questioned what System Management would see as the appropriate minimum generation level. Mr Brown and Mr Clarke suggested a minimum of 5100 MW of generation. There was some discussion about the differences between the 10 percent POE and the 50 percent POE forecasts, and the potential impact of using one set of values over the other in the calculations under clause 4.5.12. The Chair considered that the discussion highlighted some issues that have already been raised, in that the limitation of DSM availability to 24 hours per year was unsustainable. The Chair noted that this issue had been referred to the IMO's current review of the Reserve Capacity Mechanism (RCM). The Chair noted that currently all DSM was nominating into the 24 hour availability class. By comparison, a peaking generator could expect to run for around 100 hours each year. Mr MacLean noted that the calculation of the Maximum Reserve Capacity Price assumed 176 operating hours per year for a peaker. It was agreed that the IMO and System Management should continue to work together to explore System Management's concerns before the publication of the 2011 SOO. *Action Point: The IMO to work with System Management to investigate System Management's concerns regarding the methodology used by the IMO for Availability Curve calculations under clause 4.5.12 of the Market Rules, prior to the publication of the 2011 Statement of Opportunities.*	**IMO System Mgmt**
8a	**WORKING GROUP OVERVIEW** The MAC noted the Working Group overview. Mr Forward noted the IMO's proposal for Mr Alasdair Macdonald to replace Mrs Jacinda Papps as the Chair of the IMO Procedure Change and Development Working Group and as an IMO representative on the System Management Procedure Change and Development Working Group. Mr Forward also noted that the MAC had received a request for Ms Wana Yang to replace Mr Chris Brown as the Economic Regulation Authority's representative on the Rules Development Implementation Working Group	

Item	Subject	Action
	(RDIWG). The MAC agreed to the proposed changes. *Action Point: The IMO to replace Mrs Jacinda Papps with Mr Alasdair Macdonald in the membership details contained in the ToR for both the IMO and System Management Procedure Change and Development Working Groups and update the website accordingly.* *Action Point: The IMO to update the IMO website to reflect the replacement of Mr Chris Brown with Ms Wana Yang as a member of the Rules Development Implementation Working Group.*	**IMO** **IMO**
8b	**MRCPWG UPDATE** Mr Ruthven noted that the Maximum Reserve Capacity Price Working Group (MRCPWG) update in the papers for today's meeting was issued prior to the 5 May 2011 meeting of the MRCPWG. Mr Ruthven noted that at this meeting the Working Group had agreed on the methodology for determination of the margin M and the cost escalation method, and had also agreed to request further analysis on some items. A further meeting of the Working Group was proposed for a date to be confirmed in June 2011. Mr Ruthven expected that a draft Procedure Change Proposal would be presented to the MAC at its July 2011 meeting. There was some discussion about the new Reserve Capacity Price and how it compared with the price in previous years. The Chair noted that the biggest change from the previous price was due to a significant reduction in transmission costs. Mr Campillos considered that there was likely to be a cyclical variation in these prices from year to year, and that the latest price was likely to be picking up on an old history of access offers that reflected a more unconstrained network. Mr Campillos suggested that the price may therefore increase again in the future. There was some discussion about the changing availability of transmission access and the likely impact on the capacity price over time. The Chair noted that it was typical for grids with excess capacity to eventually use it, and for participants to be charged a marginal cost until no more capacity is available and a sudden jump to deep connection costs results. This pattern was likely to be reflected in the MRCP. There was general agreement that MRCP costs were likely to show a cyclical pattern in future years. The MAC noted the MRCPWG update.	
9	**GENERAL BUSINESS** Mr Andrew Sutherland noted that he wished to raise his concerns about the Rule Change Proposal: Certification of Reserve Capacity (RC_2010_14) with MAC members. These concerns were also documented in ERM Power's submission to the IMO on the Rule Change	

Item	Subject	Action
	Proposal. Mr Sutherland noted his concern was with the proposed change to clause 4.11.1(a) to replace the expression “at daily peak demand times” with “for Peak Trading Intervals on Business Days”. In response to a question from Mr Brown, Mr Sutherland submitted that this change translated to a 14 hour fuel requirement for each Business Day. The Chair noted that the IMO Board has reached its decision and that the Final Rule Change Report for RC_2010_14 was due to be published the next day. Mr Sutherland replied that ERM Power would now need to consider their next steps. Mr Sutherland submitted that clause 4.11.1(a) had never been intended as a 14 hour daily fuel requirement, but had been introduced into the Certified Reserve Capacity Market Procedure. The IMO was now proposing an amendment to clause 4.11.1(a) to align it with the Market Procedure. Mr Sutherland did not recall any MAC discussion leading to an agreement to make this change. The Chair recalled an earlier MAC discussion on the possibility of reducing the requirement to 12 hours, but noted that System Management had opposed the idea, preferring a requirement of 14 hours or more. The Chair noted that the Market Procedures have the same standing in the market to the Market Rules. Mr Sutherland considered that there was nothing currently in the Market Rules about fuel requirements and that the decision appeared to have been to go down the path of the Market Procedure rather than that of the Market Rules. Mr MacLean questioned whether the IMO Board’s decision was now irreversible. Mr Sutherland considered that ERM Power may need to appeal the decision and that the decision was likely to have an adverse impact on future investment in new generation. The Chair noted that his understanding was that the proposed amendment was simply a clarification. Mr Sutherland noted that ERM Power had sought advice from ACIL Tasman on the impact of the Rule Change Proposal. ACIL Tasman had estimated in its report to ERM Power that the change could cost the state more than $390 million per annum in surplus fuel costs. Mr Ruthven responded that this estimate assumes incorrectly that the amendments are introducing a new fuel requirement. Mr Dykstra considered that as the Market Procedures are created in accordance with the Market Rules he would expect precedence to be given to the latter. Mr Dykstra considered that the two were not necessarily inconsistent, but there was a need to clarify the Market Rules. Mr Dykstra questioned whether the implications of clause 4.11.1 were fully understood. The Chair invited Mr Sutherland and Mr Derek McKay to meet with him to work through their concerns. Mr Sutherland questioned whether the decision on the proposal could be delayed. The Chair indicated that it may not be possible to delay the process at that stage.	

Item	Subject	Action
	Action Point: ERM Power to meet with the IMO to discuss its concerns around the Rule Change Proposal: Certification of Reserve Capacity (RC_2010_14).	**IMO**
11	**NEXT MEETING** Meeting No. 39 will be held on Wednesday 8 June 2011.	
CLOSED: The Chair declared the meeting closed at 3.25 pm.		