

Independent Market Operator

Market Advisory Committee

Minutes

Meeting No.	32
Location:	IMO Board Room Level 3, Governor Stirling Tower, 197 St Georges Terrace, Perth
Date:	Wednesday 13 October 2010
Time:	Commencing at 9.00 pm

Attendees	Class	Comment
Allan Dawson	Chair	
Troy Forward	Compulsory – IMO	
John Rhodes	Compulsory – Customer	Proxy
Phil Kelloway	Compulsory – System Management	Proxy
Andrew Everett	Compulsory – Generator	
Peter Mattner	Compulsory – Network Operator	(9.25 - 10.50am)
Steve Gould	Discretionary – Customer	
Peter Huxtable	Discretionary – Contestable Customer Representative	
Andrew Sutherland	Discretionary – Generator	
Shane Cremin	Discretionary – Generator	
Rob Pullella	Observer – ERA	Proxy
Tony Perrin	Minister's appointee/ Small Use Customers	(9.00 - 12.10pm)
Apologies	Class	Comment
Corey Dykstra	Discretionary – Customer	
Ken Brown	Compulsory – System Management	
Chris Brown	Observer - ERA	
Stephen MacLean	Compulsory – Customer	
Also in attendance	From	Comment
Fiona Edmonds	IMO	Minutes
Jenny Laidlaw	IMO	Presenter
Greg Ruthven	IMO	Presenter
Bruce Cossill	IMO	Presenter (10.30-11.00am)
Ben Connor	Marchmont Hill Consulting	Presenter (11.50 – 12.10pm)
Jacinda Papps	IMO	Observer
Courtney Roberts	IMO	Observer
Shannon Turner	IMO	Observer
Kris Ellery	IMO	Observer (10.30-11.00am)
Rob Rohrlach	Energy Response	Observer (9.00 – 10.00am)
Pablo Campillos	DMT Energy	Observer (9.00 – 10.50am)

Item	Subject	Action
1.	WELCOME: The Chair opened the meeting at 9.00am and welcomed members to the 32nd meeting of the Market Advisory Committee (MAC).	
2.	<p>MEETING APOLOGIES / ATTENDANCE</p> <p>Apologies were received from:</p> <ul style="list-style-type: none"> • Ken Brown • Stephen MacLean • Corey Dykstra • Chris Brown <p>The following other attendees were noted:</p> <ul style="list-style-type: none"> • Greg Ruthven (Presenter) • Jenny Laidlaw (Presenter) • Bruce Cossill (Presenter) • Ben Connor (Presenter) • Jacinda Papps (Observer) • Courtney Roberts (Observer) • Shannon Turner (Observer) • Kris Ellery (Observer) • Pablo Campillos (Observer) • Rob Rohrlach (Observer) 	
3	<p>MINUTES OF PREVIOUS MEETING</p> <p>The minutes of MAC Meeting No. 31, held on 8 September 2010, were circulated prior to the meeting. The following amendments were agreed:</p> <p><u>Page 6: Section 4: Actions Arising [Item 90]</u></p> <ul style="list-style-type: none"> • "...such as inclusion of a heads of power for NCS in the upcoming Electrical Amendments Bill <u>Electricity Legislation Amendment Bill</u>..." <p><u>Page 9: Section 5c: Certification of Reserve Capacity [PRC 2010 14]</u></p> <ul style="list-style-type: none"> • "The Chair suggested that the IMO look at the option of publishing the SOO earlier in the Reserve Capacity timeline. <u>Dr Gould suggested that the SOO could also be published later in the timeline, for example in October. Dr Gould considered that a later publication date for the SOO would give generators more time to consider its contents relative to the recently concluded certification process for the following year. Mr Ken Brown noted that any change to the SOO publication date would need to be considered carefully, as the SOO was used by many industry members, including Western Power. Mr Cremin and Mr Sutherland agreed that currently the SOO was published too late to be useful to generators. There was some discussion about the usage of the SOO and the optimum time for its publication. The Chair advised...</u> <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 Meeting No. 31 to reflect the points raised by the MAC and publish on the website as final.</i></p>	IMO
4	<p>ACTIONS ARISING</p> <p>The actions arising were either complete or on the meeting agenda. The MAC noted the current status/progress report on each of the action points.</p>	

Item	Subject	Action
5a	<p>MARKET RULE CHANGE OVERVIEW</p> <p>The MAC noted the Market Rule Change Overview and specifically discussed two issues.</p> <p><u><i>Use of forecasts in assessment of Supplementary Reserve Capacity (SRC)</i></u></p> <p>Mr Troy Forward noted that the Market Rules require the IMO's determination of Supplementary Reserve Capacity (SRC) requirements to be based on the forecast information determined two years prior. Mr Forward noted that updated forecasts are not able to be taken into account by the IMO under the current Market Rules. The IMO will be proposing a Fast Track Rule Change Proposal regarding this issue.</p> <p><u><i>Rule Change Proposal: Adjustment of Relevant Level for Intermittent Generators [RC 2010_24]</i></u></p> <p>Mr Forward noted that the IMO had received a Rule Change Proposal from Alinta which seeks to adjust the calculation of the Relevant Level for Intermittent Generators (RC_2010_24). Mrs Jacinda Papps noted that the proposal includes some overlap with the potential outcomes of the Work Package 2 work that had been undertaken by the REGWG.</p> <p>The following additional points were raised:</p> <ul style="list-style-type: none"> • Mrs Papps noted that any Amending Rules resulting from RC_2010_24 would provisionally commence on 1 April 2011. These Amending Rules would be likely superseded by any Amending Rules resulting from a future Rule Change Proposal regarding the valuation methodology for Intermittent Generators (Work Package 2). Mrs Papps noted the IMO intended to shortly progress with its proposal for a valuation methodology. • Mrs Papps noted that RC_2010_24 had been discussed at the REGWG meeting on 2 September 2010. During the meeting the REGWG noted the impacts of Alinta's changes on any of the methodologies under consideration for the determination of the Capacity Credit allocation levels for Intermittent Generators. No REGWG members raised any issues, though Verve Energy noted that any methodology should take into account curtailment of Verve Energy wind farms. • Mrs Papps noted that the IMO's assessment of RC_2010_24 indicates that it is consistent with the Wholesale Market Objectives and was supported by all submissions received during the first consultation period, albeit with some minor suggested amendments. Mrs Papps noted that the MAC had not discussed the proposed changes previously and requested the MAC consider the system costs of implementation of the proposed changes (\$50,000) given the likely replacement by any Work Package 2 Rule Change Proposal. • The Chair noted that the IMO does not object with the principles being implemented by the Rule Change Proposal; however, it does not want to subject the Market to potentially bearing the costs of two system changes within quick succession of each other. • Mr Shane Cremin noted that there was no agreement at the REGWG regarding a methodology to put forward for Work Package 2. Mr Cremin 	

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	<p>noted that any Amending Rules resulting from RC_2010_24 would need to commence for the 2011 certification process.</p> <ul style="list-style-type: none"> The Chair noted that the IMO would be comfortable reflecting the amendments proposed by Alinta in a Rule Change Proposal regarding the valuation methodology for Intermittent Generators. However, the Chair noted that if any future Rule Change Proposal regarding the valuation methodology for Intermittent Generators was not accepted that this would mean that Alinta's proposed changes would then not be made. Mrs Papps pointed out that Alinta was not represented at the MAC for this discussion. The MAC advised that it would be appropriate that RC_2010_24 be extended until the latest possible time where, if the REGWG Work Package 2 Rule Change Proposal is not likely to be approved and operational in time for the 2011 Relevant Level calculation, this proposal could progress and the system changes be completed in time. The MAC agreed to reconfirm this advice at the next MAC meeting, when Alinta was able to be present. <p><i>Action Point: The IMO to extend RC_2010_24: Adjustment of the Relevant Level for Intermittent Generators until the latest possible time where, if the REGWG Work Package 2 Rule Change Proposal is not likely to be approved and operational in time, this proposal could be completed in time for the 2011 Relevant Level calculation.</i></p> <p><i>Action Point: The MAC to reconfirm its advice to the IMO to extend RC_2010_24 at the November MAC meeting.</i></p>	<p>IMO</p> <p>IMO</p>
5b	<p>REMOVAL OF NCS PROCUREMENT FROM THE MARKET RULES [PRC_2010_11]</p> <p>Ms Jenny Laidlaw noted that the IMO had presented the Pre Rule Change Discussion Paper: Removal of Network Control Services (NCS) expression of interest and tender process from the Market Rules (PRC_2010_11) to the MAC at the August 2010 meeting.</p> <p>During the August meeting a number of issues for further consideration were raised. The paper to the MAC outlines the progress against each of the action points and presents an updated Pre Rule Discussion Paper.</p> <ul style="list-style-type: none"> <u>Action Point 90:</u> Mr Tony Perrin noted that the OoE had met with Western Power to discuss the concerns relating to the future provision of NCS. During the meeting Western Power expressed its legal position as being prohibited from under the Electricity Corporations Act to contract for NCS. Mr Perrin noted that the OoE had some concerns with this position which it would be continuing to work with Western Power to address. In the meantime the OoE has initiated the regulatory process for the necessary legislative amendments to provide the required heads of power. Mr Perrin noted that this would be an eight to ten month process, which is already underway. The Energy Legislation Amendments Bill is currently with the Minister's office for consideration. <p>Mr Perrin noted that the OoE is currently preparing an issues paper to aide consultation with stakeholders. This consultation is scheduled to be undertaken early next year.</p>	

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	<p>Mr Forward questioned what would happen if significant issues were raised during the regulatory process. Mr Forward suggested there may be merit in delaying the Rule Change Process, given that the necessary amendments to the Act and Regulations may not eventuate. Mr Perrin noted that the OoE will continue to seek legal advice on any potential issues. Mr Perrin noted that the OoE would continue to proceed with regulatory process in any event and recommended that the rule change is progressed. Mr Peter Mattner thought it was agreed that the IMO would formally submit the Rule Change Proposal but delay implementation until there is certainty over the heads of power.</p> <p>Mr Rob Pullella questioned whether the proposed amendments would have any impact if they were not in place when procurement of NCS needs to be undertaken by Western Power. Mr Forward noted that there would be issues with the way the energy flows and payments would work in the Market Rules.</p> <p><i>Action Item: The OoE and Western Power to provide bi-monthly updates to the MAC on status of any regulatory changes relating to NCS procurement.</i></p> <ul style="list-style-type: none"> • <i>Action Point 91:</i> The Chair questioned whether there was a requirement for a Market Participant awarded a NCS contract to include on-site metering. Mr Andrew Sutherland noted that if not there would be an impact on settlement. It was agreed that there should be a requirement in NCS contracts to ensure appropriate metering for settlement. <p><i>Action Item: The MAC Chair to write to Western Power to request it to include a requirement for appropriate metering for settlement in any NCS contracts.</i></p> <ul style="list-style-type: none"> • <i>Action Point 92:</i> Mr Kelloway noted that System Management was unsure how the merit order for NCS and pay as bid would work, noting that this required further consideration. Mr Kelloway suspected that an NCS would be dispatched ahead of pay as bid. <p>Ms Laidlaw suggested that payment details for NCS contracts could be provided to System Management. Mr Kelloway agreed that would be reasonable, though noting that this in itself would not constitute a merit order. The Chair questioned how System Management would use price details in circumstances where they do not have prices for any other facilities. Mr Forward noted that this would depend on the reasons for dispatching the facility.</p> <p><i>Action Point: The IMO and System Management to discuss whether any additional amendments to the Market Rules are required to ensure that NCS is included in the Dispatch Merit Order.</i></p> <ul style="list-style-type: none"> • <i>Potential for double payments for NCS instructions.</i> Ms Laidlaw noted that the IMO had not proposed any additional amendments to clause 6.17.6 for NCS instructions to Non-Scheduled Generators to decrease output. Mr Kelloway noted that this issue was not high priority currently. It was agreed that this issue could be retained on the IMO's issue log for future review. 	<p>OoE/WP</p> <p>MAC Chair</p> <p>IMO/SM</p>

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	<p><i>Action Point: The IMO to include future amendments to support NCS instructions to Non-Scheduled Generators to decrease output on its potential rule change log, pending further consideration by the IMO.</i></p> <p>Mr Pablo Campillos questioned whether proposed clause. 6.17.6 would mean that any facility providing NCS which reduces load or increases generation would be paid zero by the market. Ms Laidlaw noted that payment for this would need to be included in the NCS contract.</p> <p>Additionally, Mr Campillos questioned whether the intent behind the proposed new clauses 5.3A.2, 5.3A.3 and 5.3A.4 would be to provide any change in the contract details to System Management. Ms Papps noted that the information exchange would only be that information needed for the purposes of dispatch.</p> <p><i>Action Point: The IMO to progress the Rule Change Proposal: Removal of NCS procurement from the Market Rules (RC_2010_11) into the formal rule change process, subject to any implementation date being tied to the outcomes of the OoE's regulatory changes.</i></p>	<p>IMO</p> <p>IMO</p>
5c	<p>UPDATES TO CERTIFICATION OF RESERVE CAPACITY [PRC_2010_14]</p> <p>Mr Forward noted that the Pre Rule Change Discussion Paper (PRC_2010_14) has been discussed at the September MAC meeting. During the meeting the MAC requested that the IMO consult with industry around the content and preferred timing of the Statement of Opportunities (SOO). Following this consultation the IMO proposes to bring the SOO publication deadline forward to 17 June (currently 1 July). Mr Forward noted that one of the considerations taken into account is the quality of the load forecasts available for inclusion in the SOO. Mr Ruthven noted that load forecasters had indicated to the IMO that providing this information earlier would essentially result in the job being undertaken twice.</p> <p>The Chair noted that historically the IMO has seen the timeframes specified in the Market Rules as being the last possible date. The System Capacity team will continue to aim to publish the SOO as early as possible.</p> <p>The following points were raised by MAC members:</p> <ul style="list-style-type: none"> Mr Sutherland questioned the value of the SOO, stating that there is a very short timeframe between the availability of the SOO (and identification of a potential opportunity) and the timeframes for discussion with Western Power regarding network access. The Chair noted that thermal developers are not the entire spectrum of capacity providers, with DSM being able to develop their projects under much shorter timeframes. Mr Perrin noted that the SOO is a risk management tool for a developer to confirm business plans and not necessarily a driver for investment. The Chair noted that the SOO can equally send signals to developers that the capacity is no longer required in the WEM. Mr Kelloway questioned the relationship between IMO's proposal to state the required level of operation for a dual fuel facility and the work previously undertaken by McLennan Magasanik & Associates (MMA). Mr Forward confirmed that the proposal was consistent with the 14 hour fuel availability requirement for Peak Trading Intervals on Business Days. 	

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	<p>Cossill noted that since market start the IMO has applied nine months worth of adjustments over a 12 month period. If the IMO were to apply the fourth adjustment, prescribed currently in the Market Rules, this would add little value to accuracy either in metering data or settlement statements. The IMO does not consider this additional adjustment would be warranted on basis of very small amendments. The IMO had also received feedback from Market Participants that a shorter process would be preferable.</p> <p>The Chair questioned whether it is necessary to have three adjustment runs and requested the MAC's comments on whether two adjustments would be appropriate. In response, Mr John Rhodes noted that the settlements team at Synergy had considered that three runs were sufficient, with an additional run being superfluous. Mr Sutherland agreed that no reason to undertake a fourth adjustment but noted that NewGen would be hesitant for the number of adjustments to be reduced to two.</p> <p>The following additional points were raised by members:</p> <ul style="list-style-type: none"> • Mr Sutherland noted that previously NewGen had received invoices from the IMO that had been materially incorrect and that there did not appear to have been logic checked by the IMO. Mr Sutherland questioned whether the IMO reviews the adjustments to ensure that any final adjustment is not a significant amount. Mr Cossill noted that any major changes are reviewed and that the IMO ensures that these are explainable. The Chair noted that the IMO's system for settlement had up until two months ago, taken almost 50 hours to complete a run, this has now been reduced to four hours. The Chair contended that Market Participants should notice a difference in the IMO reviewing the statements more thoroughly from now onwards. • The Chair also noted that the IMO had, until six months ago, modified meter readings that were obviously incorrect. This practice however led to Market Participants raising concerns that the meter database and the IMO values were different. On further review of the relevant Market Rules the IMO has determined that it should not amend incorrect meter readings. The IMO is currently actively working with Western Power to correct and review potential issues identified by the IMO with information contained in the meter database. • Mr Sutherland noted that Market Participants need to be certain that the statements are converging prior to agreeing with a reduction in the number of adjustments being undertaken by the IMO. • Mr Sutherland suggested considering whether an interim invoice for Market Participants to review could be issued prior to the first settlement statement. Mr Cossill noted that the IMO is currently considering this but noted that they are highly reliant on the provision of metering data and the timing associated with this. The Chair noted that his preference would be to see the settlement timeframes to be shortened. • The Chair noted that the biggest issues for settlement are around the entry of new participants and the accuracy of their meter data. Mr Pullella questioned whether it is possible for Market Participants to interact with Western Power to check their metering data. Dr Gould agreed that this is possible, noting that LGP currently uses this process to estimate its exact output and consequent settlement values. 	

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	<i>Action Point: The IMO to consider whether it is possible to provide provisional settlement statements to Market Participants prior to the first settlement statements being provided.</i>	IMO
5e	<p>PROVIDING PRICE RELATED STANDING DATA TO SYSTEM MANAGEMENT [PRC_2010_21]</p> <p>Mr Forward noted that currently the Market Rules require the IMO to provide Standing Data, including price related data, to System Management. The IMO considers this is inappropriate and inconsistent with the changes arising from System Management's Rule Change Proposal: Standing Data Compliance Monitoring (RC_2008_04) which commenced 24 June 2008. As a result the IMO proposes to amend the Market Rules to ensure that price related Standing Data is not provided to System Management.</p> <p>In response, Mr Kelloway noted that, in light of recent discussions in the RDIWG, System Management is no longer certain that it is appropriate that price related information is not provided to it.</p> <p>The Chair noted that typically in markets where the system operator is separate from a market operator, the market operator looks at the pricing related issues and presents a Dispatch Merit Order for the system operator. The system operator then only has regard to system security issues.</p> <p>Mr Kelloway questioned the need for the change and the value of precluding System Management from being provided this information. Mr Kelloway stated that at this stage System Management does not use any pricing related information but the recent discussions on NCS, ancillary services, and balancing (RDIWG) have indicated that System Management's role may change and that the proposed amendments under PRC_2010_21 would not facilitate this evolution in System Management's role.</p> <p>Mr Forward noted that the IMO does not currently provide System Management with price related Standing Data which is a compliance breach. Additionally, Mrs Papps noted that under the current Market Rules some clauses clearly preclude the discussion of price related information with System Management (as implemented following RC_2008_04). Mrs Papps noted that if System Management did want to be provided with price related information then the IMO would need to revert the changes implemented under RC_2008_04 to enable the IMO to provide this information to System Management. The Chair noted that the proposed changes would reflect current operational practice.</p> <p>Mr Kelloway agreed that the proposed changes should be progressed, noting that if in the future System Management needs this information to be provided to it further changes to the Market Rules will be required.</p> <p>The MAC agreed to progress the Rule Change Proposal, noting that it is dependent on the outcomes of the RDIWG, subsequent changes to provide System Management with this information may be required.</p> <p><i>Action Point: The IMO to progress the Rule Change Proposal: Providing Price Related Standing Data to System Management (RC_2010_21) into the formal process.</i></p>	IMO

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5f	<p>CONSEQUENTIAL OUTAGE – RELIEF FROM CAPACITY REFUND AND UNAUTHORISED DEVIATION PENALTIES [RC_2010_23]</p> <p>Mr Forward noted that Alinta's Rule Change Proposal (RC_2010_23) seeks relief from Capacity Cost Refunds, UDAP and DDAP where a Facility suffers a Consequential Outage. RC_2010_23 had initially been progressed via the Fast Track Rule Change Process, however due to the complexity of the solutions its timelines had been extended twice and so the proposal had reverted to the Standard Rule Change Process. Mr Forward noted that the IMO and System Management had been working closely to determine a solution to the following issues:</p> <ul style="list-style-type: none"> • Impact of partial Consequential Outages – and how to estimate the impact on a Facility's output in these situations; • Limitation of gaming potential; and • Strengthening the governance arrangements in relation to Consequential Outage submissions. <p>Ms Laidlaw noted that since market start to July 2010, 2017 ex-post Consequential Outages had been recorded. Of this 1254 were experienced by Independent Power Producers and 763 by Verve Energy. During this period, excluding Verve Energy outages, there were 5 distinct events which had occurred. For these events the total DDAP payments were approximately \$19,000 and the Capacity Refunds approximately \$20,000. Of the total amount (DDAP payments plus Capacity Refunds) approximately \$26,000 could be attributed to one event, which also involved a Planned Outage.</p> <p>Mr Kelloway noted that System Management would require adequate time for investigations of incidences of Consequential Outages (both full and partial) to take place. Mr Forward noted that the IMO did not want to make any Amending Rules any more complex than required as these events are currently infrequent. Mr Forward noted that System Management's suggested approach of implementing a simple mechanism with provision for a review at a later date. Mr Kelloway noted that a considerable increase in the amount of reporting could result from RC_2010_23 and that undertaking a review at a later date would uncover this.</p> <p>Mr Kelloway also noted that appointing an expert in the field to provide oversight of the process would involve a cost to the market. Mr Forward noted that the proposal is for a company representative to sign off on the occurrence and extent of a Consequential Outage. Ms Laidlaw confirmed that it would be an authorised officer of the company.</p> <p><i>Action Point: The IMO to update the drafting of RC_2010_23 to clarify that an authorised officer of the company would be required to affirm that a Consequential Outage had occurred and provide relevant details to the best of its knowledge of the events which resulted in the Consequential Outage.</i></p> <p>Ms Laidlaw noted the two following estimated IT costs:</p> <ul style="list-style-type: none"> • Original Alinta proposal: approx \$19,000; and • Alternative (including partial Consequential Outages): approx \$47,000. 	

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	<p>Ms Laidlaw also noted that the alternative proposal would also involve System Management IT costs.</p> <p>The following additional points were raised:</p> <ul style="list-style-type: none"> • Dr Steve Gould noted that if System Management were to require an expert review of each alleged partial Consequential Outage there could be significant costs to the market that would be likely negate the benefits of the proposed changes. Mr Forward noted that it was for these reasons he considered there would be value in undertaking an annual review. Additionally, Dr Gould noted that it is a criminal offense for an officer of the company to make a false declaration. • Mr Forward requested that the MAC be provided with summary statistics after six months of implementation so that a view on the impacts on market behaviour of the more simplistic change could be considered. • Mr Forward questioned whether full relief or partial relief from refunds and unauthorised deviation penalties should be granted, stating that his preference was for these to be granted at a level nominated by the Facility. Ms Laidlaw noted that this would be consistent with implementing a more complex option. Mr Andrew Sutherland questioned where the complexity with this option would occur. In response, Ms Laidlaw noted that currently a scheduled generator nominates an amount of reduction from its maximum achievable output (similar to if a Planned Outage). System Management then takes the figure and removes any quantity that would fall above the Facility's RCOQ. This amended value is then provided through to the IMO. The IMO as such can not reconstruct the value of capacity provided and so would need a different figure which excludes the adjustment to be provided. Ms Laidlaw also noted that this methodology also does not consider Dispatchable Loads. • Mr Forward suggested it might be more appropriate if the officer of the company made the adjustment. Ms Laidlaw agreed that this would simplify System Management's assessment but questioned how hard it would be for Market Participants to determine the appropriate figure. The Chair questioned whether there would be a reduction in the IMO's system costs if this process were to be adopted. • Mr Cremin suggested that the information requirements for provision of the required information in these instances could be specified in a Market Procedure, including details of the form that a Market Participant would need to fill in. Mr Forward agreed with this suggestion. • Mr Sutherland suggested that in these incidences the facility's DSQ could simply be equated to its MSQ. Ms Laidlaw noted that this was Alinta's original proposal but that it would create a loop hole for an aggregated facility where for example one facility is on Consequential Outage for six months and the other facility is relieved from deviation penalties and capacity refunds ex-post during this time as a result. Dr Gould noted that undertaking a review after 6 months would allow the MAC to consider these situations. <p>The MAC agreed that it would be appropriate to adopt the simple approach</p>	

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	<p>subject to a review being undertaken after implementation to consider the impacts on market behaviour.</p> <p><i>Action Point: The IMO to progress the simple solution to the Rule Change Proposal: Consequential Outage- Relief from Capacity Refunds and Unauthorised Deviation Penalties (RC_2010_23), subject to a annual review of Consequential Outages by System Management being included in the Amending Rules and details of the information requirements being provided in a Market Procedure.</i></p>	IMO
5g	<p>CAPACITY CREDIT REDUCTION [PRC_2010_28]</p> <p>Mr Forward noted the Pre Rule Change Discussion Paper (PRC_2010_28) would allow the IMO to reduce a Market Participant's Capacity Credits to zero in the case where the IMO does not consider it would be able to make its capacity available for the entire year. Mr Forward noted that the proposal would include a notification and appeal process, with the IMO's decision also being a Reviewable Decision.</p> <p>Mr Forward noted that an incidence where a Market Participant does not build its facility and so fails to provide its capacity to the WEM can have repercussions for a number of years. The Chair noted that there is a significant burden placed on all Market Participants in these instances where short-pay arrangements are required.</p> <p>The following points were noted:</p> <ul style="list-style-type: none"> • Dr Gould noted that a large facility being unavailable may have significant impacts on all Market Participants. • Mr Sutherland questioned whether it would be possible for the IMO to reduce a Facility's Capacity Credits half way through the year option or make a decision to partially reduce. Mr Forward noted that there may be a net outflow to the market if the IMO were to reduce a Facility's Capacity Credits to zero part way through the year. • Mr Sutherland questioned whether if a DSM programme amends its certification level by 1 MW it is required to provide the IMO additional security. Mr Forward confirmed this was the case as there would be a delivery risk to the market. The IMO wants to limit exposure to the market associated with these circumstances. The Chair noted that a Market Customer would also receive a share of any security which is forfeited by a Market Participant. • Mr Rhodes questioned whether the reduction of Capacity Credits would impact on the IRCR calculations. Similarly, Mr Sutherland questioned the likely impact on the capacity price. Mr Forward noted that the impact should but similar to the early entry of Capacity Credits. The IRCR calculation would be responsive to these cases however any amendment to the capacity price would be a significant structural amendment. Mr Sutherland noted that in these cases the capacity price would be lower than what it would have otherwise been if participant not been included in the original calculation. Additionally, Mr Sutherland noted that a participant's security deposit does not get distributed to Market Generators. Mr Forward noted that it may be reasonable to 	

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	<p>adjust the capacity price in these instances.</p> <p>The MAC agreed that it supports the idea in principle but requested the IMO to consider the appropriateness of price adjustments and ratio changes.</p> <p>Mr Forward also noted that the IMO's ability to draw down on security in these circumstances would be at the end of the year (current provisions in the Market Rules). The alternative would be for the IMO to be able to draw down on security immediately. Dr Gould suggested that there may be merit in diverting this security to a SRC fund. The Chair agreed that this should be further considered.</p> <p><i>Action Point: The IMO to consider incorporating:</i></p> <ul style="list-style-type: none"> • <i>an ability to draw down of Reserve Capacity Security prior to the end of the Capacity Year and diverting this to a SRC fund; and</i> • <i>potential adjustments to the capacity price as a result of reducing a Market Participants Capacity Credits to zero,</i> <p><i>and update the Pre Rule Change Discussion Paper: Capacity Credit Reduction (PRC_2010_28) accordingly.</i></p> <p><i>Action Point: The IMO to present an updated version of the Pre Rule Change Discussion Paper: Capacity Credit Reduction (PRC_2010_28) to the MAC for further discussion at the December 2010 MAC meeting.</i></p>	<p>IMO</p> <p>IMO</p>
5h	<p>LIMITS TO EARLY ENTRY CAPACITY PAYMENTS [PRC_2010_30]</p> <p>The Chair noted that Alinta's Pre Rule Change Discussion Paper (PRC_2010_30) would preclude any newly accredited Facility's that are not Scheduled or Non-Scheduled Generators from being able to receive Capacity Credit payments prior to the close of the Reserve Capacity window in the year that the Reserve Capacity Obligations first apply. The Chair noted that he had discussed this with Mr Corey Dykstra who had expressed concern that the previous Rule Change Proposal: Early Certified Reserve Capacity (RC_2009_10) had been intended to incentivise the early entry of Market Generators and so reduce the risk to the market of a facility entering the market late. However the Amending Rules resulting from RC_2009_10 apply to all types of capacity providers. Mr Dykstra had expressed concern with the financial consequences of this outcome to the market.</p> <p>Mr Forward noted that he had received some correspondence from EnerNOC stating that they were planning on entering the market based on the existing Market Rules, which includes the opportunity to be provided early entry payments. Mr Forward noted that they were concerned that the proposed amendments would take immediate effect. Mr Forward had agreed to represent EnerNOC's concerns about the assumption that there is no commissioning associated with DSM programmes. In response Mr Rhodes noted that this should be part of their business plan preparation, for example installing telecommunications equipment and testing of equipment.</p> <p><i>Action Point: The IMO to distribute the comments received from EnerNOC on the Pre Rule Change Discussion Paper: Limits to Early Entry Capacity payments (PRC_2010_30) to MAC members.</i></p>	IMO

Item	Subject	Action
	<p>The following points were also raised:</p> <ul style="list-style-type: none"> • Mr Cremin noted that the original Market Rules had specified arbitrary dates for the window of entry, which were later amended due to empirical evidence. During its consideration of RC_2009_10, the MAC had had a large amount of discussion as to whether Market Customers should pay for the additional capacity. The MAC had determined that the proposal was appropriate. Mr Cremin noted that there is a question over where to draw the line, suggesting that it makes sense to delineate between generation capacity and DSM. • Mr Forward noted that the IMO would need to consider whether the proposed amendments would be consistent with the Wholesale Market Objectives and in particular Market Objective (c) – avoiding discrimination against particular energy options and technologies. The Chair noted concern with singling out one specific type of capacity provider. Mr Pullella noted that a balance between economic efficiency (Market Objective (a)) and discrimination (Market Objective (c)) would need to be struck. • Mr Perrin noted that the value proposition needs to be demonstrated from the perspective of small use customers and that this should be presented to the MAC prior to its further consideration. Mr Kelloway also noted that the usability of the capacity at that time of year is also questionable. In response, it was noted that Varanus Island occurred in July and DSM may well have been used then, had it been available. • Mr Huxtable noted that the proposed amendments would shift the capacity year for DSM to 1 December. Mr Huxtable considered that it was an ambit claim that DSM should not receive Capacity Credits till later in the year. Mr Forward noted that the Reserve Capacity Year is from 1 October to 1 October. A concession had been made under RC_2009_10 in interests of reliability of supply to encourage earlier entry of thermal plant. The MAC supported aligning the proposal with the 1 October Reserve Capacity Year rather than the close of the window of entry. Mr Forward stated that in his view the question is really around whether non-generation plant should have early access to income stream for purposes of commissioning. • Mr Rob Rohrlach noted that Energy Response was opposed to the proposed amendments, stating that it is not appropriate to create differences between the treatment of generation and DSM under the Market Rules. Mr Rohrlach noted that the Market Rules currently treat DSM as a valid and valuable alternative to generation, and that this principle should be retained. The Chair agreed however noting that DSM has a shorter duration of availability (24 hours). Mr Cremin noted that Intermittent Generation is already distinguished from other types of generation in its treatment. This creates a precedent that not all capacity had an equal value to the market and therefore should not be treated evenly. • Mr Rohrlach noted that Energy Response has already signed contracts for next year from 1 August based on the Market Rules as they currently stand. The Chair noted that immediate implementation of any proposed amendments would require further consideration. • Mr Rohrlach considered that Alinta's assessment of the proposed 	

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	<p>amendments against the Market Objectives was questionable.</p> <ul style="list-style-type: none"> • Mr Pablo Campillos noted that the proposal: <ul style="list-style-type: none"> ○ Discriminates between capacity options and technologies that reduce overall greenhouse gas emissions and therefore breaches Market Objective (c); ○ Ignores that the enabling of DSM at many end-user sites does involve costly and time-consuming retrofits of existing facilities, often requiring the engagement of Western Power and the associated variability underlying their provision of network costs and timelines. While acknowledging that these costs and variability's may not, in actual quantity, match those that might be associated with traditional generation, they are significant and impact the likelihood and timing of DSM provision at the relevant sites; ○ Recognises that the early entry of DSM programs can support Market objective (e) by helping reduce the amount of electricity used by small and large consumers alike; and ○ Were it to be implemented prior to the next capacity cycle (2013/14), would seriously impact the commercial arrangements made by current DSM program operators with end-use capacity providers. • Mr Campillos noted that one of the fundamental principles of Alinta's proposed amendments relates to the immediate availability of DSM. Mr Kelloway noted that from a security point of view if it was demonstrable that there was a significant increase in availability then this should be further considered. Mr Kelloway stated that if System Management could call a DSM provider similarly to a generator then they should be treated the same; however this is not currently the case. Mr Kelloway however noted that System Management have had very little experience with dispatching DSM due to the restrictions that have applied to past DSM options. • Mr Sutherland noted that capacity payments are currently based on the Maximum Reserve Capacity Price. Mr Sutherland questioned if a DSM programme enters the market early whether market will not be paying a large amount for this capacity or whether it will equate to a wealth transfer. Mr Forward clarified that the past year's price would not be diluted by the early entry of a Market Participant. The impact of the entry of that participant would not be reflected in the capacity price until the next year. Mr Rhodes noted that this adds to the market cost. • The Chair explained that commencement of any Amending Rules in 2013/14 would be unlikely and that the IMO would need to strike a balance between immediate implementation and delaying implementation for too long. The Chair noted that DSM providers can more easily finalise their portfolio towards the end of the process than generators. Mr Campillos noted that DSM providers would have identified DSM programme quantities but not necessarily the NMIs but that this does not change the fact they have provided security and will be looking for commencement in next cycle. The Chair noted that all Market Participants should be factoring in risks associated with changes to the Market Rules in contracting arrangements. • Mr Cremin noted that further consideration of the regulatory risk created by such an amendment to the Market Rules would be required. Mr Cremin noted that previously Alinta had argued that changes should not 	



Item	Subject	Action
	<p>be implemented that would impact on their existing DSM programmes.</p> <ul style="list-style-type: none"> The Chair noted that the fundamental hurdle for the proposed amendments is whether they are on balance consistent with the Market Objectives in particular the objective to avoid discrimination in the market against particular energy options and technologies. The Chair agreed that the IMO would further consider this as well as determining the costs to the market associated with the early entry of DSM programmes. Mr Kelloway noted that System Management would appreciate an opportunity to discuss the availability and the ability to dispatch DSM. <p>The Chair noted that there was support from MAC for the proposal to proceed but the IMO needs to ensure whether the proposal is on the whole consistent with the Market Objectives. The Chair noted that the outcomes of the IMO's further assessment will be presented at November MAC meeting.</p> <p><i>Action Point: The IMO to assess the Pre Rule Change Discussion Paper Limits to early entry capacity payments (PRC_2010_30) against the Market Objective and report back to the November MAC meeting.</i></p>	IMO
6a	<p>MARKET PROCEDURE CHANGE OVERVIEW</p> <p>The MAC noted the overview of recent and upcoming procedure changes.</p>	
7a	<p>WORKING GROUP OVERVIEW</p> <p>The MAC noted the Working Group overview and agreed to the proposed amendments to the System Management Procedure Change and Development Working Group's membership.</p>	
7b	<p>REGWG UPDATE</p> <p>Mr Ruthven noted that the IMO was preparing the final report for the REGWG. The Chair noted that Pre Rule Change Discussion Papers for both Work Package 2 and Work Package 3 will be presented at the November MAC meeting.</p>	
7c	<p>MRCPWG UPDATE</p> <p>Mr Forward noted that the MRCPWG had now resolved approximately 80 percent of the procedural based questions that had been identified. The IMO is currently undertaking a tender to process to appoint Consultants to review network transmission pricing and the determination of the WACC.</p>	
7d	<p>RDIWG UPDATE</p> <p>The Chair noted that the RDIWG was progressing well and is moving from the exploration period into the solution period. The MAC noted the update.</p>	
8a	<p>MAC DISCRETIONARY MEMBERSHIP</p> <p>Mr Forward noted that following the 2010 review of the composition of the MAC, a Market Participant had raised concerns with the method for selecting Discretionary Class members and the involvement of the IMO in the process. Mr Forward noted that the IMO Board had requested the IMO to further consider the operation of the membership process for Discretionary Class membership on the MAC. As a result, the IMO had</p>	

Item	Subject	Action
	<p>engaged Marchmont Hill Consulting (MHC) to review the options for selection. MHC's report recommends a hybrid model for appointment process be adopted. The following points were raised by members:</p> <ul style="list-style-type: none"> • Mr Huxtable noted that there was no class of participant for contestable customers and so MHC's proposition would not work in that respect. • Mr Rhodes questioned how the processes for creating a shortlist and the IMO making its decision would work in practice. Dr Gould also questioned what the difference between the hybrid model and the current process would be. Mr Pullella noted that there would be difficulties in getting all Market Participants involved in the process and as such the decision should rest with the IMO. • Dr Gould noted that he was not convinced that Market Participants would be organised enough to determine their own members. Mr Cremin noted that there were some established groups that could assist but that not all Market Participants are members of these groups. Mr Forward noted that there is still benefit in IMO involvement in membership decisions as the overall membership balance of the MAC was an important consideration. Mr Cremin suggested that, as a pseudo step not outlined in the Market Rules, a Market Participant class could nominate candidates. • The Chair noted that the IMO's view is that the current process is not broken, however the IMO Board wanted to explore whether changes could be practically made. The Chair also noted that the MAC's role is to advise the IMO Board, and that there is merit in the Board having some role in the selection process • Mr Kelloway confirmed whether the requirement for Compulsory Class members to provide details of their skills, experience and background would continue. The Chair noted that it is not about the skill set of these members but rather getting the overall composition of the MAC right. The Chair noted that MHC's solution would simply include another step in the process. • Mr Forward suggested that as the IMO had only undertaken one review to date following the new regime it might be reasonable to allow the process to be undertaken again. • Mr Ben Connor noted that MHC did not consider the process to be broken and that there was no reason why Market Participants should not have a greater involvement in selecting their representation. However, the requirement for the MAC to have a broad range of skills is a driver for the involvement of a central party such as the IMO in the process. • Mr Connor noted that transparency was an important aspect of the process and that the Appointment Guidelines document was not as clear as it could be that a balance of skills is required. Mr Connor noted that a detailed assessment process had been undertaken by the MAC Evaluation committee (an internal IMO committee). Mr Connor suggested that further detailing the process would be more transparent. • It was noted that there was always an option for non-members to be observers during meeting and that there had not been many incidences of Market Customers or Market Generators taking up this offer previously. 	

Item	Subject	Action
	<ul style="list-style-type: none"> The Chair asked the MAC if a change was needed. Mr Pullella noted that the adoption of the hybrid model may encourage collusion between Market Participants. An open process would create the fairest system for selection. Mr Forward acknowledged that there is merit in providing greater visibility around the process, noting that, for example that neither he nor the Chair had been involved in the initial decision making due to the potential for a conflict in interest. Dr Gould questioned whether there was merit in a probity audit of the IMO's process. Mr Cremin suggested that this was not appropriate if the process is transparent and robust. <p>The MAC agreed that the IMO should retain its role in selecting the MAC Discretionary Members and present the process for the 2011 review to the MAC.</p> <p><i>Action Point: The IMO to present an overview of the current process for the selection of both compulsory and discretionary MAC members for consideration at the November 2010 MAC meeting.</i></p>	IMO
8b	<p>SRC UPDATE</p> <p>Mr Forward requested the MAC's views on whether Capacity Cost Refunds should be held in a consolidated fund to pay for SRC in the first instance, and if so whether this should be addressed as part of the RDIWG. Mr Forward noted that the RDIWG would provide an opportunity for effort and resource to be allocated towards further consideration/development of this concept however this would represent an increase in the RDIWG's scope. The Chair asked if the MAC would prefer the IMO progress this issue outside of the RDIWG. The MAC supported this approach.</p> <p>The Chair also noted that Synergy had previously expressed concerns around the windfall gains associated with receiving Capacity Cost refunds. Mr Rhodes noted that is the IMO holding Capacity Cost Refunds in a consolidated fund to pay for SRC in the first instance is Synergy's preferred position.</p> <p><i>Action Point: The IMO to prepare a Pre Rule Change Discussion Paper to propose that Capacity Cost Refunds are held in a consolidated fund to pay for SRC.</i></p>	IMO
9	<p>MAC MEETING DATES</p> <p>The Chair noted that there may need to be a MAC meeting held in January 2011. The MAC noted the meeting dates for 2011.</p>	
10	<p>GENERAL BUSINESS</p> <p>There was no general business raised.</p>	
11	<p>NEXT MEETING</p> <p>Meeting No. 33 will be held on Wednesday 10 November 2010. Mrs Papps requested that the meeting time be extended to 12:00 - 5:00pm due to the large agenda. The MAC agreed. The IMO indicated that lunch would be provided.</p>	

Market Advisory Committee

Item	Subject	Action
CLOSED: The Chair declared the meeting closed at 12.20pm.		

IMO Market Advisory Committee

Options for selection of Discretionary Class members

October 2010

The MAC selection process must be considered relative to the role of the MAC in meeting the WEM Objectives


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graph LR
    A[Selection Process] -- "Helps create a more effective MAC" --> B[Market Advisory Committee (MAC)]
    B -- "Helps achieve the WEM Objectives" --> C[Wholesale Electricity Market (WEM)]
  
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- Provides the right mix of skills, knowledge and experience
- Provides representation of the full diversity of participants' perspectives and interests
- Provides a workable group structure


- Reviews rules changes and issues papers
- Advise the IMO on market impacts of proposed rule changes
- Make recommendations to resolve market issues

- Promote efficient, safe and reliable production
- Encourage competition
- Avoid discrimination about energy options
- Minimise long-term cost of electricity


Client | Engagement | 2


The problem of Discretionary Class members selection has multiple dimensions

- Accessing the skills, knowledge and experience needed across the group overall
- Obtaining an adequate degree of representation across different classes of participant
- Having a group of a size that can engage in substantive debate


Client | Engagement | 3


Under the current selection model the IMO evaluates and selects members

- Rule Participants and industry groups may provide nominations
- The assessment of nominations is carried out by the IMO's MAC Evaluation Panel
- Evaluation includes a 'skills gap assessment' to highlight any potential weaknesses in the MAC
- IMO Chief Executive Officer recommends representatives to the IMO Board for endorsement.


Client | Engagement | 4


There are benefits and limitations to having the IMO select Discretionary Class members

	Commentary on requirements	Assessment of status quo
<ul style="list-style-type: none"> Provide the right mix of skills, knowledge and experience 	<ul style="list-style-type: none"> Expertise specific to participant class ? Generic professional expertise ✓ 	<ul style="list-style-type: none"> Participants understand their issues best Oversight by a single party increases certainty that all generic professional skills will be available
<ul style="list-style-type: none"> Provides representation of the full diversity of participants' perspectives and interests 	<ul style="list-style-type: none"> Focus on the nominee's ability to represent their group's interests X 	<ul style="list-style-type: none"> Arguably deprives participants of the opportunity to manage the effectiveness of their representation.
<ul style="list-style-type: none"> Provides a workable structure 	<ul style="list-style-type: none"> The group size should be kept at the minimum possible ? 	<ul style="list-style-type: none"> Number of non-discretionary members challenges this objective


Client | Engagement | 5

MHC recommends a model that provides a greater role for participants in appointments and enhances the transparency of the process

- Market participants identify preferred candidates for separate discretionary participant classes
- IMO appoints members, but deviates from participant preferences only where necessary to ensure generic professional skills requirements are met
- All appointment criteria, including generic professional skills requirements, would be made explicit to allow participants to put forward the best possible candidates


Client | Engagement | 6

The recommendations would require changes to the MAC Appointment Guidelines

- Section 4 (skills, knowledge and experience of members): This section should provide additional detail around the criteria for assessing the Discretionary Class nominations and shortlists
- Section 7 (the nominations and appointment process): This section should reflect the changes in the Discretionary Class candidate assessment and selection process, including defining the roles of the market participants and the MAC Evaluation Panel.