

## Least Cost Determination of Ancillary Services Workshop

### Minutes

<b>Meeting</b>	Least Cost Determination of Ancillary Services Workshop
<b>Location:</b>	IMO Board Room Level 3, Governor Stirling Tower, 197 St Georges Terrace, Perth
<b>Date:</b>	Friday 27 February 2009
<b>Time:</b>	Commencing at 2.00pm until 3.30pm

Attendees	
Troy Forward	Independent Market Operator (IMO)
Jacinda Papps	IMO (Chair)
Fiona Edmonds	IMO (Minutes)
Alistair Butcher	System Management
Phil Kelloway	System Management
Brendan Clarke	System Management
Corey Dykstra	Alinta
Rob Pullella	Economic Regulation Authority (ERA)
Chris Brown	ERA
Brad Huppatz	Verve Energy
Mark Lewis	NewGen
Patrick Peake	Perth Energy
Mathew Martin	Office of Energy
Steve Gould	Landfill Gas & Power
Wesley Medrana	Synergy
Geoff Glazier	Sinclair Knight Merz (SKM)

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1.	<b>WELCOME AND APOLOGIES / ATTENDANCE</b> The Chair opened meeting at 2:35pm and welcomed attendees to the Least Cost Determination of Ancillary Services Workshop.	<b>Chair</b>
2.	<b>INTRODUCTION/BACKGROUND</b> RC_2008_38 was originally submitted as a fast track proposal but as it	<b>Chair</b>

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	<p>didn't meet the requirements it was progressed through the Standard Rule Change process. It was noted that the Rule Change Proposal received two submissions following the first submission period. One submission supported the rule change in its entirety, whereas the second submission noted that the rule change did not go far enough if it was intended to facilitate competitive procurement of ancillary services.</p> <p>In response to the submissions received it was the IMO's original decision, in the Draft Rule Change Report, to proceed with the proposed rule change. This was with the caveat of holding a workshop during the second submission period to discuss the issues raised. However the IMO Board requested that the workshop be held before the Draft Rule Change Report was published so as to allow the IMO to incorporate the results of the workshop in an amended report and consequently allow Market Participants an opportunity to make further comments during the second submission period.</p>	
3.	<p><b>OVERVIEW OF PROPOSED CHANGES</b></p> <p>System Management was invited to present their Rule Change Proposal. System Management noted that the proposal was intentionally limited in scope and simply aimed to better facilitate the procurement of ancillary services than the status quo. Essentially, the proposal is addressing how to better determine least cost by creating an even playing field for the energy payment associated with providing ancillary services. The proposal covers two parts.</p> <p>Firstly, on the energy side it ensures that energy supply is remunerated at MCAP for spinning reserve and load following arrangements for both the Electricity Generation Corporation and any other Market Participants willing to provide ancillary services.</p> <p>Secondly, availability payments are determined as 15% for Margin_Peak and 12% for Margin_Off-Peak (as determined by the ERA) for Verve. Under the proposal other Market participants would bid a proportion of the Margin_Peak and Margin_Off-Peak values in order to provide a least cost option to Verve. It is System Management's view that unless this proposal is implemented it will be unable to satisfactorily determine Least Cost, limiting the ability to competitively procure ancillary services.</p> <p>Prior to submitting RC_2008_38 System Management had determined two options to overcome this issue:</p> <ul style="list-style-type: none"> <li>• Option A – attempt to forecast MCAP in advance – but this would be a conservative forecast and so the IPP would be remunerated more than Verve and therefore System Management would not be cost minimising.</li> <li>• Option B – apply a discount value to the formula use to determine availability payments. Any contract must represent a discount on the price of Verve.</li> </ul> <p>The Rule Change proposal is attempting to apply the option identified</p>	<p><b>SYSTEM MANAGEMENT</b></p>

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	<p>as Option B above. The proposed Amending Rules will allow System Management to do what is required of them under the current drafting of the Market Rules. System Management noted that the Rule Change proposal is designed to simply allow this to occur and is not aimed at perfecting the situation.</p> <p>System Management also noted that a large document was prepared by the IMO, System Management and ERA which underpins this proposal. This document was presented to the MAC when the rule change was first submitted.</p>	
4.	<p><b>RESPONSE FROM RULE PARTICIPANTS WHO MADE SUBMISSIONS ON THE PROPOSAL DURING THE FIRST SUBMISSION PERIOD</b></p> <p><u>Landfill Gas and Power</u> - LGP stated that the proposal allows for comparison between suppliers to occur on an even footing. Additionally, they noted the proposals degree of abstraction and agreed with the logic of Alinta’s argument that payment at MCAP will create uncertainty which would consequently decrease investment. LGP queried whether going into a higher level of detail was warranted and if the Workshop decided that this was the case LGP would be supportive of this decision.</p> <p><u>Alinta</u> – Alinta noted that there is a lack of clarity in the rule change proposal and queried whether it would be effective in achieving the outcomes required from the rules. In particular, Alinta noted that the Rule Change Proposal is much less clear when it comes to how the availability payment calculation is made.</p> <p>With regards to the effectiveness of the proposed changes in facilitating the procurement of ancillary services, Alinta queried whether the changes would have any effect on the outcomes or just allow System Management to meet its obligations. Overall Alinta, was not convinced that the changes would allow other participants to enter the market and stated that if the changes progressed in their current form they would not enter the ancillary services market due to the large level of uncertainty with regards to availability payment levels.</p> <p>Alinta also queried whether the IMO should be having a holistic view of the outcomes or just play at the margins when making decisions whether to accept rule change proposals.</p> <p>In response to Alinta’s comments, System Management noted that they are uncertain that the Market Rules in their current form are workable and that the proposed rule change is a step towards determining whether the rules work or not.</p>	LGP/ALINTA

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5.	<p><b>WORKSHOP DISCUSSION</b></p> <p>SKM noted the uncertainty over the dispatch process. For example how much spinning reserve would be determined from net contract position or Resource Plan? They also queried how these determinations of quantity will impact on certainty and decisions to participate.</p> <p>In response to SKM's queries, System Management stated that their current thinking is that decisions will always be made around Resource Plans. They however noted that nothing was concrete and decided yet. System Management may get people to deviate from their resource plans. The rule change proposal is not attempting to go into this degree of complexity. System Management also noted that these considerations would not require rule changes</p> <p>ERA noted that Verve costs may differ from those costs to the market. Could this rule change have an impact on Verve? That is it might not necessarily be the least cost option to Verve.</p> <p>IMO asked the Workshop whether if progressed the rule change to get a better final outcome but there were still no "players on the field", would this be better for the market?</p> <ul style="list-style-type: none"> <li>• Alinta noted that if they would be compensated for moving away from their resource plan then they would be interested; otherwise they would not want to enter the market;</li> <li>• NewGen agreed with Alinta regarding certainty;</li> <li>• Perth Energy stated the severe risk of being called to supply at below operating cost as a reason for their potential reluctance to bid;</li> <li>• LGP queried whether Verve would be properly reimbursed and whether they are allowed to bid. System Management responded that they did not believe that Verve was unable to bid but queried whether this would make economic sense; and</li> <li>• Verve stated that they would be happy to see others enter the market.</li> </ul> <p>IMO also asked whether we should be keeping the complexity of the process to get a better market outcome. However it was noted by the Workshop that System Management must work towards cost minimisation (MR obligation) and that maybe this is the problem with the current system. That is currently we are trying to predict an unknown value. In response, maybe System Management should be applying financial prudence - the Workshop however noted that this is an expensive service to the market.</p> <p>NewGen queried how important this service is to the market. System Management responded that they see its important increasing over time with greater competition.</p> <p>The Workshop discussed whether System Management could be using pricing information to determine dispatch of ancillary services as if they</p>	<p><b>WORKSHOP</b></p>

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	<p>knew which generator was the cheapest at any moment (that is if any are cheaper than Verve) then they could dispatch easily, However, System Management can't use pricing information for dispatch as they do not have any knowledge of Generator pricing at this time.</p> <p>SKM noted that they see the ancillary services procurement as being a 2 stage process.</p> <ul style="list-style-type: none"> <li>• Stage 1 – ancillary service providers nominate how much availability for spinning reserve. System Management then picks ancillary service providers from the normal dispatch merit order (reduces the risk). IPPs in merit order before Verve, which would mean Verve less well off.</li> <li>• Stage 2 - availability payments will only be made if the service is provided.</li> </ul> <p>System Management agreed that this process, as described by SKM, would constitute a better option but purported that this is a long term decision. This process was also meet with general support from other Workshop members.</p> <p>The Workshop also discussed whether the settlement mechanism in the Market Rules meshed in with the rule change proposal. The IMO and System Management agreed that they need to check this. There are two options for allowing for the “meshing” of these changes with the requirements outlined in the Market Rules.</p> <ul style="list-style-type: none"> <li>• First that System Management allows for transparency of settlements; and</li> <li>• Second that the IMO change the settlement system.</li> </ul> <p>The IMO noted that the do not want to do incremental Rule Changes and the Workshop agreed that the IMO will put forward any required changes in any draft decision.</p> <p>The IMO asked the Workshop that even after this decision would people want to be involved. In response, Alinta noted that the option to nominate, as presented by SKM in their concept of the process, would facilitate Alinta into the process.</p> <p>System Management noted that if rejected they feel it is futile to have a procurement process.</p> <p>The Workshop agreed that we should avoid a piece meal rule change and noted that the proposed rule change has merits if the aim is to test the market.</p>	

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6.	<p><b>AGREED OUTCOMES</b></p> <p>The following constitute the agreed outcomes of the meeting:</p> <ul style="list-style-type: none"> <li>• The Workshop agreed that the SKM review already underway could potentially be expanded to consider the procurement details in more detail.</li> <li>• System Management and the IMO will discuss if this issue of least cost could be dealt outside the Market Rules with via contractual means. System Management agreed to supply the IMO with this information within a week.</li> <li>• If it is not the case that this can be achieved via contractual means then the IMO will support the proposed rule change in its current form, albeit with the required inclusion of any identified systems changes.</li> </ul>	<b>WORKSHOP</b>