

Independent Market Operator Rules Development Implementation Working Group

Minutes

Meeting No.	10
Location:	IMO Board Room Level 3, Governor Stirling Building, 197 St Georges Terrace, Perth
Date:	Tuesday 15 March 2011
Time:	Commencing at 9.37am to 2.15pm

Attendees	
Allan Dawson	IMO (Chair)
Troy Forward	IMO
John Rhodes	Market Customer
Corey Dykstra	Market Customer
Steve Gould	Market Customer
Geoff Gaston	Market Customer
Andrew Everett	Market Generator
Shane Cremin	Market Generator
Andrew Sutherland	Market Generator
Phil Kelloway	System Management
Wana Yang	ERA
Jacinda Papps	Minutes
Jim Truesdale	Presenter
Greg Thorpe	Presenter
Kieran Murray	Presenter
Preston Davies	Presenter
Ashley Milkop	Presenter
Douglas Birnie	Observer
Ben Williams	Observer
Steve Black	Observer
Cameron Parrotte	Observer (from 10.20am to 1.47pm)
Chris Brown	Observer
Apologies	
Paul Hynch	Office of Energy (for lateness)
Cameron Parrotte	System Management (for lateness)

Item	Subject	Action
	<p>WELCOME AND APOLOGIES / ATTENDANCE</p> <p>The Chair opened the 10th meeting of the Rules Development Implementation Working Group (RDIWG) at 9.37am.</p> <p>The Chair welcomed Wana Yang to the RDIWG, it was noted that Wana would be the ERA representative going forward.</p> <p>Apologies, for lateness, were noted from Mr Paul Hynch and Mr Cameron Parrotte.</p> <p>The Chair noted that the meeting included a big agenda and requested that members stay on topic, noting that, if required, he would restrain extra discussion in order to allow time for discussion of all the agenda items.</p>	
1.	<p>PREVIOUS MEETING'S MINUTES</p> <p>The minutes of RDIWG Meeting No. 9, held on 22 February 2011, were circulated prior to the meeting.</p> <p>There was concern from one member about the level of detail in the minutes produced for the last meeting. The Chair reminded the group that prior to the 30 September 2010 the IMO did not take minutes of the RDIWG meetings. At the request of the ERA it was agreed that the IMO would provide brief minutes for each meeting of the RDIWG. The minutes would only contain a summary of the issues discussed, agreements reached and action points raised during the meetings.</p> <p>With regards to the minutes of RDIWG Meeting No. 9, the following request for change was made:</p> <ul style="list-style-type: none"> • Box 4: IPP Offers/Bids and Verve Energy PSC <p><u>There was some discussion about Verve Energy's rebidding arrangements and how Verve Energy would identify the LFAS PSC. It was noted that the design document indicated that Verve Energy would need to submit a separate LFAS PSC. It was agreed that the IMO would discuss the formation of the LFAS PSC with Andrew Everett.</u></p> <p>Subject to the agreed amendment, the RDIWG 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. 9 to reflect the points raised by the RDIWG and publish on the website as final.</i></p>	IMO
2.	<p>RESERVE CAPACITY REFUNDS</p> <p>Mr Greg Thorpe presented the Review of Capacity Cost Refunds paper, noting it contained three areas for discussion:</p> <ul style="list-style-type: none"> • Creation of a dynamically calculated refund regime and the level of refunds; • Replacement of the Net-STEM Shortfall refund requirement with a compliance regime incorporating an Operational Test; and • Creation of the Market SRC Fund. 	

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	<p>The Chair noted the submissions received prior to the meeting had been taken into account in the updated version of the paper. System Management noted that it still intended to submit on the proposal.</p> <p>The RDIWG discussed each of the three areas of the paper specifically.</p> <p><u>Creation of a dynamically calculated refund regime and the level of refunds</u></p> <p>The following points were discussed/noted:</p> <ul style="list-style-type: none"> • Some members represented that refunds, while incurred by capacity providers, are indirectly passed back to customers through bi-lateral contract pricing; • It was questioned whether DSM should be included when defining the reserve margin. The Chair noted that this is a new issue; • A dynamically calculated refund regime should lead to a more efficient outcome in the right circumstances; • It was questioned whether the model went far enough regarding allocative risks with respect of different plant types; • The proposal changes a participant's risk profile, some members represented that the refund factor should be lowered and other members represented that it should be increased; • The proposal provides a signal as to the value of capacity as well as incentives for Market Participants (with the sufficient data) to manage the level reserve in the market; • It was noted that participants need to help manage the reserve margin and that increased transparency of outages could assist in this. System Management noted that the PASA's provide the quantum and period of outages at present. System Management indicated that it was the IMO's responsibility to publish this information and noted the Outage Planning review currently underway. <p>It was agreed that a dynamically calculated refund should be established.</p> <p>There was no agreement on the reserve capacity refund multiplier and potential exposure under the proposal developed by the IMO, but given the differences in members' views, members acknowledged that the IMO was unlikely to modify these aspects of the proposal.</p> <p><u>Replacement of the Net-STEM Shortfall refund requirement with a compliance regime incorporating an Operational Test</u></p> <p>The following points were discussed/noted:</p> <ul style="list-style-type: none"> • System Management noted a concern with the proposed level of surveillance and monitoring. System Management questioned whether the Net STEM Shortfall should be removed; • It was noted that Net STEM Shortfall calculation impacts base load/"must run" type plant versus peaking plant differently; 	

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	<ul style="list-style-type: none"> • It was noted that there will be a learning curve with the changes to the compliance regime for all involved; • The proposed compliance regime will be implemented so that it does not create unnecessary burden for the Market. However the proposed regime is likely to be administratively burdensome for those participants who regularly and significantly deviate from Resource Plans. • In response to a question, the IMO noted that compliance shouldn't be light-handed, but instead should be a pragmatic administration of regimes; • The IMO also noted that there needs to be trade-offs with removing the automatic penalty and providing adequate incentives for appropriate behaviour.; • System Management noted a concern with being able to meet ongoing Operational Test requirements and requested the triggers for undertaking an Operational Test; • It was noted that the implementation of this change is likely to include compliance/monitoring tools to "red flag" capacity provider's performance. It was reiterated that the proposed compliance regime should not create unnecessary burden for the Market. <p>It was agreed that, subject to the establishment of an appropriate compliance/monitoring regime (incorporating an Operational Test), the Net STEM Shortfall refund requirement be removed.</p> <p><u>Creation of the Market SRC Fund to receive first call on capacity refunds and be the first source of funding for SRC</u></p> <p>The following points were discussed/noted:</p> <ul style="list-style-type: none"> • A member noted that he needed to review the original SRC rule change prior to providing support, noting that there are some aspects of the SRC regime that currently do not work i.e. allocating the costs to the causer. <p><i>Action point: Mr Dykstra to review the SRC rule change within 1 week of this meeting and inform the IMO whether he supported the SRC fund proposal or not.</i></p> <ul style="list-style-type: none"> • The quantum of the proposed fund was discussed. It was questioned whether there could be an annual review to set the size of such a fund. It was noted that the fund would be substantive and refunds may flow into this for a number of years until the required level is met. • The allocation of refunds, once the fund is full, was discussed. A member suggested consideration of refunding the excess by market fees rather than the current methodology (to Market Customers based on consumption share). It was noted that there is no justification to change the methodology noting that SRC will remain an uncapped liability for Market Customers once the SRC Fund is exhausted. <p>It was agreed that, subject to one member providing his support/or not, that a market SRC fund should be created to receive first call on refunds and be the first source of funding for SRC.</p>	

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	<p>The Chair noted that, given the level of support for the proposal, the IMO would prepare a decision paper for the MAC and the IMO Board for endorsement and then progress through the Rule Change Process.</p>	
<p>3.</p>	<p>BALANCING MARKET PROPOSAL</p> <p><u>(a) Updated Balancing Design Details</u></p> <p>On the premise that all members had read the updated paper, the floor was opened for discussion:</p> <ul style="list-style-type: none"> • It was questioned whether "Balancing" was the correct term to use, and whether the term adequately captures all the concepts in the proposal. It was agreed that the concepts need to be adequately described in the documentation but the use of the current terminology would remain; <p>Members discussed the design principles underpinning the Balancing and LFAS proposals (page 41 of the meeting papers). The following points were noted/discussed:</p> <ul style="list-style-type: none"> • The use of "all Market Participants" in principle 1 was discussed in detail. While it was agreed, in principle, that this should be broad and that it is a theoretical possibility that all Market Participants could participate, it was noted that the majority of benefits still sit with Market Generators. It was agreed that a footnote be included outlining this. • It was agreed that "balancing price" be amended to "energy price in principle 3. <p><i>Action point: IMO to update the design principles underpinning the Balancing and LFAS proposals, as agreed at the meeting.</i></p> <p><u>(b) Scenarios/modelling - update</u></p> <p>Mr Jim Truesdale provided the RDIWG with an update of where the scenario/modelling is at, noting that both generic and specific models had been developed. The specific model includes Resource Plan, Capacity and Standing Data from three months ago.</p> <p>It was noted that the model is a snapshot and not a full market simulation model.</p> <p>It was agreed that:</p> <ul style="list-style-type: none"> • The IMO demonstrate the model to Geoff Gaston and Shane Cremin; • the generic model be distributed for wider use; and • the IMO would write to participants to request whether the specific model could be distributed. <p><i>Action point: IMO to write to participants requesting whether the specific balancing model can be distributed.</i></p> <p><u>(c) Cost Benefit Analysis</u></p> <p>Mr Kieran Murray of Sapere presented the Cost Benefit Analysis, a copy of this presentation is available with the meeting papers on the website: www.imowa.com.au/RDIWG.</p>	

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	<p>The following points were noted/discussed:</p> <ul style="list-style-type: none"> • The 10% compounding efficiency gain was discussed. It was noted that this was assumed to relate to System Management labour costs on the premise of the level of substitution between labour costs and system changes. It was noted that the discount does not apply to all resources, only new resources. Members were sceptical that resources would reduce over time in an organisational context. It was noted that retaining the staff may lead to other benefits. It was agreed that Sapere would discuss this in additional detail at its meeting with Synergy; • A member noted that there was not a lot of explanation in the report, and a reader needs to accept the numbers. It was noted that some of the information leading to the results is confidential. It was agreed that after Sapere had met with individual participants it would ascertain what additional information is needed in the final report; • It was noted that 40 - 50% of costs are allocated to Market Customers, but there seemed to be little focus on the benefits to Market Customers. It was agreed that Sapere would include a section on the benefits to Market Customers; • System Management noted that it thought that the benefits from avoiding cycling would be higher and some of the other benefits would be lower, citing its own analysis which supported this theory. It was agreed that System Management would provide this analysis to Sapere; • A member noted that he thought the benefits would be higher. It was noted that the focus was on tangible benefits only and that the intangible benefits would increase the level of benefits (if they were taken into account); • A member suggested presenting the analysis in terms of a payback period (i.e. 3.5 years) rather than the benefit/cost ratio over 7 years. <p>It was noted that the \$6 million of savings (per annum) reflects only 1% of the value of the energy market.</p> <p>It was noted that there is a series of meetings/presentations already planned on the analysis. Sapere asked members to request additional meetings if required.</p> <p><u>(d) System Management "simpler options" paper</u></p> <p>Mr Cameron Parrotte presented the System Management "simpler options" paper, noting that it considered its proposal would get similar benefits for less cost and complexity.</p> <p>The Chair opened the floor for discussion, the following points were discussed/noted:</p> <ul style="list-style-type: none"> • System Management's proposal 1 was similar to Pete Ryan's design, it was noted that considerable time/effort was spent reviewing this. It was noted that this proposal works well only for plant with flexible fuel access, but that was also the reason why it was discounted; • System Management's proposal 2 was similar to the proposal under development, with the main difference being the gate closures. It was noted that the development costs associated with 	

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	<p>the IMO's proposal and System Management's proposal would not be too dissimilar. System Management noted that it considered the ongoing costs for its proposal would be less;</p> <ul style="list-style-type: none"> • Sapere had briefly reviewed System Management's proposal from a cost benefit perspective and estimated that approximately two-thirds of the benefits would be lost; • It was noted that the System Management proposal did not go far enough, and that there is significant benefit with the flexibility arising from multiple gate closures; • It was questioned whether the System Management proposal was any better than the status quo (i.e. would be similar to STEM model); • It was questioned how participants would make decisions/participate without the market forecasts and increased flexibility of the Balancing proposal ; • System Management suggested consideration of multiple gate closures by facility type. It was noted that this was likely to be inconsistent with Market Objective (c); • It was noted that the System Management proposal removes a logistical barrier, but not a commercial barrier, i.e. it solves half of the problem only; and • System Management noted a concern with lots of to and fro-ing under the proposal, questioning how markets overcome this. It was noted that markets converge on results and that this had been proven in a number of other jurisdictions. It was discussed whether System Management would benefit from being exposed to another market, with a similar design to the IMO proposal. <p>One member asked if the generator representatives around the RDIWG saw the System Management proposal as likely to enable them to compete meaningfully in balancing. These representatives indicated that this was not likely to be the case. In light of this, the Chair noted that there was sufficient concern that System Management's proposal did not go far enough and that there should be no further consideration of it.</p> <p><u>Summary</u></p> <p>The Chair noted that the aim for the next RDIWG meeting was to agree with a final design for a recommendation to go to MAC, therefore requested any outstanding issues from members. This is so that the IMO can take these into account when preparing the decision papers.</p> <p>The following outstanding issues were noted:</p> <ul style="list-style-type: none"> • Verve Energy resubmissions; • Gate closure; • Ancillary Services and how it fits into the design; and • Implementation timing. <p>With regards to implementation timing it was noted that the IMO was aiming to get a market trial in place by 1 December 2011 with full implementation in 1 April 2011 (as agreed with System Management).</p> <p>The Chair requested whether the IMO could table a design at the next</p>	

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	meeting for an in principle decision and endorsement to send to the MAC. The RDIWG affirmed.	
4.	<p>PROJECT TIMEFRAMES/MILESTONES - VERBAL UPDATE</p> <p>The RDIWG did not discuss the project timeframes/milestones.</p>	
5.	<p>RESPONSE TO SUBMISSIONS</p> <p>The RDIWG did not discuss the response to submissions.</p>	
6.	<p>GENERAL BUSINESS</p> <p>A member requested clarification on the Capacity Cost Refunds discussion held earlier in the meeting. In response, the Chair noted that:</p> <p>The RDIWG agreed to:</p> <ul style="list-style-type: none"> • a dynamically calculated refund being established, however there was no agreement on the Reserve Capacity refund multiplier and potential exposure under the proposal developed by the IMO, but given the differences in member's views members acknowledged that the IMO was unlikely to modify these aspects of the proposal; • subject to the establishment of an appropriate compliance/monitoring regime (incorporating an Operational Test), the Net STEM Shortfall refund requirement be removed; and • subject to one member providing his support/or not following a review of the original SRC rule change, that a market SRC fund should be created to receive first call on refunds and be the first source of funding for SRC. <p>In response to a question regarding whether section 3(d) of the minutes adequately captured the discussion Mr Cameron Parrotte noted that System Management had some additional comments on the minutes, which he would circulate to the IMO following the meeting. The IMO agreed to consider these comments when preparing the final minutes.</p>	
7.	<p>OUTSTANDING ACTION POINTS</p> <p>The RDIWG did not discuss the outstanding action points.</p>	
8.	<p>NEXT MEETING</p> <p>Meeting No. 11 will be held on Tuesday 5 April 2011 (9.30am-2.00pm).</p>	
9.	<p>CLOSED: The Chair thanked members and declared the meeting closed at 2.15pm.</p>	