

Independent Market Operator Rules Development Implementation Working Group

Minutes

Meeting No.	11
Location:	IMO Board Room Level 3, Governor Stirling Building, 197 St Georges Terrace, Perth
Date:	Tuesday 5 April 2011
Time:	Commencing at 9.35am to 12.34pm

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
Cameron Parrotte	System Management
Wana Yang	ERA
Paul Hynch	Office of Energy
Alasdair Macdonald	Minutes
Jacinda Papps	Observer
Jim Truesdale	Presenter
Greg Thorpe	Presenter
Douglas Birnie	Presenter
Ben Williams	Presenter
Winston Cheng	Observer
Bill Heaps	Observer
Paul Sell	Observer
Gavin White	Observer

Item	Subject	Action
	<p>WELCOME AND APOLOGIES / ATTENDANCE</p> <p>The Chair opened the 11th meeting of the Rules Development Implementation Working Group (RDIWG) at 9.35am.</p> <p>The Chair announced the resignation of Troy Forward. In light of Troy</p>	

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	<p>Forward taking a role with a Market Participant, the Chair asked members to advise him if they had any concerns with Troy Forward remaining on the MAC and the RDIWG in the meantime.</p> <p>Mr Troy Forward introduced Mr Alasdair Macdonald as Mrs Jacinda Papps' replacement in the Market Development team. It was also noted that Mr Macdonald would undertake the minute taker role for the meeting.</p>	
1.	<p>PREVIOUS MEETING'S MINUTES</p> <p>The minutes of RDIWG Meeting No. 10, held on 15 March 2011, were circulated prior to the meeting. The following amendments were agreed:</p> <p><u>Page 4, last paragraph under the heading: Creation of a dynamically calculated refund regime and the level of refunds:</u></p> <ul style="list-style-type: none"> There was not agreement about <u>on</u> the reserve capacity refund multiplier and potential exposure <u>under the proposal developed by the IMO, but given the differences in member's views, but</u> members acknowledged that the IMO would <u>was unlikely to recommend no change to</u> <u>modify these aspects of the proposal.</u> <p><u>Page 6, first paragraph:</u></p> <ul style="list-style-type: none"> The Chair noted that, given the <u>level</u> of support for the proposal, the IMO..." <p><u>Page 7, fourth bullet point:</u></p> <ul style="list-style-type: none"> System Management noted that it thought that the costs <u>benefits</u> from avoiding cycling would be higher <u>and some of the other benefits would be lower</u>, citing its own analysis..." <p><u>Page 7, new paragraph:</u></p> <ul style="list-style-type: none"> <u>It was noted that the \$6 million of savings (per annum) reflects only 1% of the value of the energy market.</u> <p><u>Page 9, General Business:</u></p> <p>The RDIWG agreed to:</p> <ul style="list-style-type: none"> a dynamically calculated refund being established, <u>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 with the IMO indicating it would recommend no change to the quantum of the multiplier and potential exposure was unlikely to modify these aspects of the proposal;</u> <p><u>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</u></p>	

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	<p><u>preparing the final minutes.</u></p> <p><i>Action Point: The IMO to amend the minutes of Meeting No. 10 to reflect the points raised by the RDIWG, and its consideration of the additional comments from System Management, and publish on the website as final.</i></p>	IMO
2.	<p>BALANCING MARKET PROPOSAL</p> <p>a) Cost Benefit Analysis on the Balancing proposal</p> <p>Mr Douglas Birnie advised the group that the cost benefit analysis (CBA) would be distributed on 6 April 2011 and apologised for not having it ready for the meeting.</p> <p>Mr Birnie gave a brief outline of the CBA. It was noted that Mr Kieran Murray had indicated that it is rare to get such a result from the quantitative analysis when opening up competition in markets and often qualitative arguments are needed to support a CBA.</p> <p>The Chair opened the floor for discussion. The following points were discussed/noted:</p> <ul style="list-style-type: none"> • A member noted that a discussion on risk was missing in the CBA. • It was noted that there was a concern about security of supply under the new Balancing Market proposal, which was missing from the analysis. In response, the Chair noted that System Management will have its existing rights with respect to managing system security. The Chair notes that the preservation of these rights was a fundamental part of the design. <p><i>Action Point: The IMO to circulate the updated CBA to the RDIWG on 6 April 2011.</i></p> <p>b) Modelling of the balancing proposal</p> <p>Mr Ben Williams presented an update and informed the group that the model had been provided to Shane Cremin and Geoff Gaston for their views about whether the model proposal was ready for wider distribution. It was noted that, while the model is relatively simple, it will be useful for operational staff. There was discussion regarding the level of circulation for the model. It was agreed to circulate the model to a wide audience.</p> <p><i>Action Point: Shane Cremin and Geoff Gaston to provide the IMO with any feedback for improvement on the model by 12 April 2011.</i></p> <p><i>Action Point: Following receipt of Griffin Energy and Perth Energy's advice on the Balancing market model, the IMO to circulate the model to relevant stakeholders.</i></p> <p>c) Recommendation paper on the balancing and load following ancillary services proposal</p> <p>Mr Birnie outlined the background to the recommendation paper. A member noted that the paper was a useful summary; however had some suggestions regarding the messaging. It was agreed that the IMO would consider these comments out of session.</p>	<p>IMO</p> <p>Shane Cremin and Geoff Gaston</p> <p>IMO</p>

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	<p data-bbox="423 180 1279 243"><i>Action Point: Mr Dykstra to provide the IMO with his comments on the recommendation paper.</i></p> <p data-bbox="423 275 1279 338">The RDIWG considered the paper. The following was discussed/noted:</p> <p data-bbox="423 369 805 401"><u>Section 3, work done to date:</u></p> <ul data-bbox="467 432 1279 716" style="list-style-type: none"> <li data-bbox="467 432 1279 495">• Mr Birnie noted that bullet point (i) to be amended to: “UDAP/DDAP penalties should be removed <u>or lowered</u>”. <li data-bbox="467 527 1279 716">• Mr Birnie advised that the table on page 14 reflected the discussion from the last RDIWG meeting. A member noted principle 1 still missed the footnote agreed at the last RDIWG meeting (i.e. noting that it is a theoretical possibility that all Market Participants can participate, however currently, the majority of benefits currently sit with Market Generators). <p data-bbox="423 779 894 810"><i>Action: The IMO to add in the footnote.</i></p> <p data-bbox="423 842 821 873"><u>Section 5, outstanding issues:</u></p> <p data-bbox="423 905 659 936"><u>Gate closure times:</u></p> <ul data-bbox="467 968 1279 1419" style="list-style-type: none"> <li data-bbox="467 968 1279 1062">• The Chair noted that markets are often reasonably conservative regarding gate closure to begin with, and often move closer to real time as the market matures. <li data-bbox="467 1094 1279 1188">• Mr Parrotte questioned whether 2 hours was an appropriate gate closure for the WEM, suggesting that additional analysis is required. <li data-bbox="467 1220 1279 1293">• Mr Truesdale noted that without relatively short gate closure times participants will not accrue the benefits. <li data-bbox="467 1325 1279 1419">• It was agreed to amend the recommendation regarding gate closure times to: “<u>An initial design</u> target outcome would be two hours ... “. <p data-bbox="423 1451 683 1482"><u>Verve Resubmission:</u></p> <ul data-bbox="467 1514 1279 1734" style="list-style-type: none"> <li data-bbox="467 1514 1279 1587">• Mr Everett questioned the rationale behind Verve resubmissions being 6 hours ahead. <li data-bbox="467 1619 1279 1734">• Mr Forward advised that the IMO Board had concerns regarding Market Power and had voiced a desire that a cautious approach be taken on the issue and to let the design evolve. <p data-bbox="423 1766 894 1797"><u>Ancillary services – deferred until later:</u></p> <ul data-bbox="467 1829 1279 1986" style="list-style-type: none"> <li data-bbox="467 1829 1279 1986">• Mr Birnie clarified that the reference to “deferred until later” was a reference to the question whether the Load Following Ancillary Services proposal should be dealt with in tandem to the design work on balancing. It was agreed to amend the issue to: “<u>Timing of rollout of new Load Following Ancillary</u> 	<p data-bbox="1317 275 1422 338" style="text-align: center;">Mr Dykstra</p>

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	<p data-bbox="513 149 727 176"><u>Services Market</u>".</p> <ul data-bbox="467 216 1279 338" style="list-style-type: none"> • Mr Everett questioned how Verve Energy could submit its Portfolio Supply Curve and a Load Following Portfolio Supply Curve in practice. It was agreed that the IMO would work with verve Energy on this. <p data-bbox="423 373 1279 464"><i>Action Point: The IMO to work with Verve Energy on how to submit note a Portfolio Supply Curve and a Load Following Portfolio Supply Curve.</i></p> <p data-bbox="423 499 740 527"><u>Timelines and milestones:</u></p> <ul data-bbox="467 562 1279 940" style="list-style-type: none"> • Mr Birnie noted that the IMO would work with SM and Market Participants to achieve the target timelines and the current timelines were not "set in stone". However, if the timeline was to extend beyond April 2012 then the IMO's budget would likely be affected. The Chair noted that he had clear direction from the Minister regarding the trial of design changes to the market by the end of 2011. • A discussion took place between members whether the Minister's desire might conflict with the time needed to unravel the complexities involved in the issues involved. Mr Birnie reiterated that a project delay is likely to be more expensive. <p data-bbox="423 976 1081 1003">Section 6, consistency with the Market Objectives:</p> <p data-bbox="423 1039 626 1066">It was agreed to:</p> <ul data-bbox="467 1102 1279 1262" style="list-style-type: none"> • Include a reference to the impacts on safety and reliability aspects of the proposal (Market Objective (a)); and • Reflect the positive impacts regarding the clean balancing price (Market Objective (e)); <p data-bbox="423 1297 938 1325">Section 7, impacts on the current WEM:</p> <p data-bbox="423 1360 1279 1415">It was agreed to amend this bullet point to read: "extend the life of current <u>hybrid</u> market arrangements".</p> <p data-bbox="423 1451 1036 1478">Section 8, high level const benefit assessment:</p> <p data-bbox="423 1514 1279 1568">It was agreed to include further explanation of the quantum of benefits of the balancing proposal.</p> <p data-bbox="423 1604 748 1631">Section 9, Market Power:</p> <p data-bbox="423 1667 1279 1827">The members discussed the meaning of market power. It was noted that the ERA was the responsible entity for determining the scope of this. Mr Birnie noted that the Board has requested an independent assessment of the market power implications to be available to it when assessing the draft rule changes.</p> <p data-bbox="423 1862 846 1890">Section 10, time for a decision?:</p> <p data-bbox="423 1925 1279 1980">It was agreed to amend the wording in the penultimate bullet point by substituting "only" with "most effective" with a consequential</p>	<p data-bbox="1341 499 1398 527">IMO</p>

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	<p>amendment to <u>recommendation (e)</u>.</p> <p>Section 11, recommendations:</p> <p>The Chair sought member's views on the recommendations. Individual views were as follows:</p> <ul style="list-style-type: none"> • Mr Rhodes: Support sending to MAC. There is a question whether the RDIWG can do any more; • Mr Parrotte: (proxy for Mr Kelloway): Can't support all recommendations, need more detail e.g. around the Cost Benefit Analysis, more work on roles/systems needed, respect that this paper is principles, timing is still a concern for System Management; • Mr Everett: Supportive of competitive balancing, supportive of design, proceeding on good faith with regards to the detailed design process; • Mr Cremin: Proposal is adding sophistication to the market, this will force change/rebidding etc. Supportive; • Mr Sutherland: Supportive, providing not limiting ourselves with regards to gate closure. Has concerns still around STEM, but noted that this is outside the scope of this work; • Mr Hynch: Supportive. Interested in non-quantifiable benefits. Support the move to more light handed regulation (re removal of UDAP and DDAP); • Mr Gaston: Can't participate currently. Fully supportive. • Mr Dykstra: Noted that it seemed to be the most effective option available but in light of the low net benefits and the risks, did not consider it worth pursuing. Not supportive. • Mr Gould: From a smaller retailer's perspective will provide benefits. Strongly support. <p>In light of this, the Chair resolved to proceed to recommend this proposal to the MAC.</p>	
<p>3.</p>	<p>RESERVE CAPACITY REFUNDS</p> <p>The Chair noted there was a delay in providing the recommendation paper.</p> <p>The members discussed widely the issues surrounding Reserve Capacity Refunds. The members discussed whether the start point should be with a problem definition rather than as a reaction to commercial positions. The Chair pointed out that delay of issue resolution may prevent implementation before next summer. The members noted that early implementation should not be a priority over getting the right answer.</p> <p>It was agreed that:</p> <ul style="list-style-type: none"> • a high level principles paper on the issues surround reserve 	

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	<p>capacity refunds should be prepared;</p> <ul style="list-style-type: none"> • the next RDIWG meeting would be workshop-style to discuss the defined principles; and • this action will be likely to forego a summer 2012 solution. <p>The RDIWG discussed the SRC fund, the following points were noted:</p> <ul style="list-style-type: none"> • A member noted the unresolved issues from RC_2008_34: Funding of SRC and questioned whether agreeing to the SRC fund meant that those unresolved issues were off the table. It was in this member's opinion that the matters raised by MMA in RC_2008_34 need to be resolved prior to making a decision on an SRC fund; • It was noted that a SRC fund does not take away the risk to Market Customers, but changes the timing. It was noted that Market Customers are still exposed to an uncapped SRC liability. It was also noted that the SRC fund was better than the status quo; • There is currently no force majeure in the market, and the risk of SRC is uninsurable; • The Chair noted that establishing an SRC fund will not preclude further work on the MMA recommendations, members were supportive of a wider review of SRC; <p>In response to a question, the IMO agreed to provide the RDIWG with a quantification of the level of refunds per annum.</p>	
6.	<p>GENERAL BUSINESS</p> <p>There was no general business raised.</p>	
7.	<p>OUTSTANDING ACTION POINTS</p> <ul style="list-style-type: none"> • Action item 19: <u>Mr Parrotte noted that System Management was working on being able to provide wind generation forecasts to participants at the same time as Load forecasts.</u> • Action Item 51: In response to a question regarding what this action item was trying to achieve, it was noted that there are a number of participants paying for the same, or similar, services from BoM and that the IMO would look to purchase the relevant BoM forecasts and provide to participants. It was noted that the IMO had not heard from BoM. The IMO undertook to follow this action item up. 	
8.	<p>NEXT MEETING</p> <p>Meeting No. 12 will be held on Tuesday 3 May 2011 (9.30am-2.00pm).</p>	
9.	<p>CLOSED: The Chair thanked members and declared the meeting closed at 12.34pm.</p>	