INDEPENDENT MARKET OPERATOR

Reserve Capacity Mechanism Working Group

Minutes

Meeting No.	8
Location:	IMO Boardroom Level 17, 197 St Georges Terrace, Perth
Date:	Thursday 11 October 2012
Time:	Commencing at 2.10pm – 5.45pm

Attendees	**Class**	**Comment**
Allan Dawson	Chair	
Suzanne Frame	IMO	
Brad Huppatz	Market Generator (Verve Energy)	
Ben Tan	Market Generator	Left at 5:10 pm
Wendy Ng	Market Customer	
Steve Gould	Market Customer	
Stephen MacLean	Market Customer (Synergy)	
Andrew Stevens	Market Customer/Generator	
Michael Zammit	Demand Side Management	Proxy
Geoff Down	Contestable Customer	
Justin Payne	Contestable Customer	
Brendan Clarke	System Management	
Wana Yang	Observer (Economic Regulation Authority)	
Paul Hynch	Observer (Public Utilities Office)	Left at 5:10 pm
Apologies	**Class**	**Comment**
Patrick Peake	Market Customer	
Andrew Sutherland	Market Generator	
Shane Cremin	Market Generator	
Jeff Renaud	Demand Side Management	
Also in attendance	**From**	**Comment**
Mike Thomas	Presenter (The Lantau Group)	
Greg Ruthven	Presenter (IMO)	
Aditi Varma	Minutes	
Fiona Edmonds	Observer	
Jenny Laidlaw	Observer	
Natasha Cunningham	Observer	

Item	Subject	Action
1.	**WELCOME AND APOLOGIES / ATTENDANCE** The Chair opened the eighth meeting of the Reserve Capacity Mechanism (RCM) Working Group (RCMWG) at 2:10pm. The Chair welcomed the members in attendance and noted apologies from Mr Patrick Peake, Mr Andrew Sutherland, Mr Shane Cremin and Mr Jeff Renaud.	
2.	**MINUTES ARISING FROM MEETING 5** The following amendments were noted: • Mr Greg Ruthven to be included in the list of attendees. • On page 8, Ms Wana Yang requested the following change: *Ms Wana Yang provided a comment on availability of generating plants in the market. She observed that plants which have high rates of Planned Outages should be included in the review of ~~penalised by~~ the refund mechanism.* *Action Point: The IMO to publish amended minutes of RCMWG meeting no.7 on the Market Web Site.*	
3.	**ACTIONS ARISING** Ms Suzanne Frame noted that Action Item 2(The IMO to include information on the cost effectiveness of proposed solutions or harmonisation) was in progress. She added that Mr Greg Ruthven would present his analysis for Action Item 4 and Mr Mike Thomas for Action Item 5.	
3a.	**ACTION ITEM 4: Assess the Significance of the Issue of Gaming by analysing coincidental Relevant Demand (RD) and Individual Reserve Capacity Requirements (IRCR)Trading Intervals** The Chair invited Mr Ruthven to make his presentation. The following discussion points were noted: • Members requested that the presentation be uploaded on the RCMWG webpage. • Mr Stephen MacLean noted that even one load on the system with a Relevant Demand figure that is greater than the adjusted IRCR should be of concern. Mr Andrew Stevens noted that the number of such loads are low and may seem immaterial, but he agreed with Mr MacLean on principle. Mr Stevens proposed that in case of an adjustment to Relevant Demand, the Wholesale Electricity Market (WEM) Rules (Market Rules) should allow for an automatic adjustment to the IRCR. The Chair noted that it would be useful to rectify the anomaly that exists in the Market Rules where the IRCR did not have to be adjusted in response to an adjustment to the RD. He further added that the IMO would assess the potential of this issue for a Rule Change and report back to the group. • Mr Ben Tan also requested that the analysis be provided not just as a percentage of loads but also as a percentage	

	of total capacity so that members can assess the significance of the issue. *Action Points:* • *The IMO to upload presentation for Action Item 4 on the Market Web Site* • *The IMO to assess the need for a Rule Change to allow for an adjustment to the IRCR if the RD is adjusted in a Trading Interval* • *The IMO to include further analysis on RD and IRCR as a percentage of total capacity in addition to as a percentage of loads.*	
3b.	**ACTION ITEM 5: Present a Preferred Proposal for Dynamic Refunds Regime** The Chair invited Mr Mike Thomas to present on the dynamic refunds regime The following points of discussion were noted: • On the recycling mechanism for refunds, Mr MacLean noted that the proposal only created incentives for generators to come back online quicker from a Forced Outage because of the high prices in the energy market that would result from some generation capacity not being available. Mr Stevens noted that lower capacity refunds would also act as an incentive. Mr Brad Huppatz asked for more clarity on how the rebate would work, whether it would be given to available units or operating units. Mr Thomas responded that there were two options to pay the rebates; the first one being to pay the rebates to those units that were dispatched, however, in doing so there would be a chance that a unit with a higher Forced Outage rate at other times might get unfairly paid, and the second option was to pay the rebates to those units that are available and are not on Planned or Forced Outages. Mr Michael Zammit observed that in this proposal, the impact of the refunds could be diminished for generators who may be on long Outages but are available for the remaining year as they could make up for their losses during the times they are available. In response, members discussed that the situation would be different for generators who are on an average Outage rate. If a generator had an Outage rate higher than the average, then it would be out-of-pocket as a result of the refunds. • Discussion ensued on how the proposal would work. Mr Ben Tan queried if the proposed rebate would just be pro-rated across all available units on a Trading Interval basis. Mr MacLean queried if the principle was to encourage generators to minimise their Planned Outages. The Chair added that the rebates proposal may incentivize generators to take enough time off to fix their equipment and build the potential of earning rebates into their commercial decision-making. Ms Wana Yang requested if analysis should be done using the 2011-12 Capacity Year to assess what rebates might be collected by a generator who was on Outage for more than 30% of the year. Mr Huppatz clarified that the proposal was to apply refunds if the unit was on a Planned Outage as well.	

	The Chair observed that there would be winners and losers. It seemed that good performance would be rewarded, potentially getting more money than they paid, whereas bad performance would still be exposed to refunds. • Mr Geoff Down observed that the proposal seemed to indicate that the value of capacity was different according to the time at which it was running. He noted that this seemed to contradict the original principle of all capacity having the same value, which the working group had agreed to. Mr Thomas responded that capacity does have the same value however, the only way to test if a piece of equipment would deliver that value was to test it and apply refunds. • Mr Huppatz and Mr Stevens noted that the proposal would not address the issue of unfair reward to generators that had a low capacity factor as well as low utilisation. They noted that it would be unfair to reward generators, such as peaking units, that have very low utilisation, at times when another generator goes on a Forced Outage. At such times, the risk is increased for generators that are running; and so it would be unfair to reward generators that are available but not running. Mr MacLean also echoed this concern. • Mr MacLean queried whether the proposed refund mechanism would apply to Demand Side Programmes as well. Mr Thomas responded that his analysis was based on the scenario where harmonization had already been applied and DSP's would have unlimited availability. • Mr Justin Payne observed that the proposal did not address the concerns raised about plants that have high Planned Outage rates such as 30% or above, indicating that they are unavailable for a long time but would still get paid rebates. Mr Huppatz noted that there were current provisions in the Market Rules that allowed System Management to reject Planned Outages and generators would be exposed to refunds thereafter. Discussion ensued whether the proposal created incentives for generators to be available. Mr Huppatz argued that currently there is a strong incentive to conduct planned maintenance to avoid Forced Outages. Mr MacLean added that in his opinion the incentive was not strong enough. He further added that this proposal would warrant renegotiation of contracts because currently the retailer pays for the cost of refunds that generators and DSPs incur. In the case of this proposal, the money and the risk would get reallocated implying that a renegotiation of those contracts would have to take place. The Chair also added that the situation would be worsened for Market Customers if a capacity shortfall occurred and the IMO was forced to recruit Supplementary Reserve Capacity. • Mr Brendan Clarke queried how Intermittent Generators would be treated under this proposal. Mr Ruthven noted that a Facility would be eligible for a rebate in a Trading Interval in which it was potentially liable for a refund. Given that the Reserve Capacity Obligation Quantity of Intermittent Generators is zero, they would not be eligible for rebates. Members also discussed the impact of the proposal on DSPs. Mr Zammit noted that there was an outstanding action item on harmonization related to defining the conditions in which DSP could be dispatched.	

	• Mr Thomas concluded by noting the three main points of concern that were raised by members in response to the dynamic refunds proposal: a) The need to renegotiate bilateral contracts b) The reallocation of money from Market Customers to Market Generators c) The continued application of costs of Supplementary Reserve Capacity to Market Customers • Mr Huppatz added that further analysis should be done on the impact on different generating plants utilising different technologies because in his opinion, the technology of a plant can affect its Outage rates. The Chair suggested that it would be useful to use last year's data to conduct analysis of the impacts on each individual generator. The Chair queried if members were comfortable with pursuing this proposal albeit with further analysis conducted on the concerns raised by members. Mr MacLean mentioned that he was not convinced that this proposal would produce any significant incentives. His suggestion was that this proposal should not be pursued further. The Chair responded that it might be premature to dismiss this proposal without doing further investigation into its merits and demerits. *Action Point:* • *The Lantau Group to address the following specific concerns raised by members on the proposed refunds mechanism:* *a) The need to renegotiate bilateral contracts* *b) The reallocation of money from Market Customers to Market Generators* *c) The continued application of costs of Supplementary Reserve Capacity to Market Customers* • *The Lantau Group to conduct further analysis on the impacts of the proposed refunds regime on individual Facilities.*	
4.	**RESERVE CAPACITY PRICE (WORK STREAM 1)** The Chair invited Mr Thomas to make his presentation. The following discussion points were noted: • Ms Yang mentioned that the quantity of excess capacity was a concern. The concern stemmed more from an economic efficiency perspective because excess capacity indicated inefficient over-investment. She also noted that the Shared Capacity Cost was always borne by the Market Customers, irrespective of whether there was excess capacity or a shortfall. • Mr Tan noted that Mr Thomas's proposal was based on an implicit assumption about the price of reserve capacity in bilateral contracts. He added that a retailer would be in a better position if most of its capacity was bilaterally contracted, if the contract price was lower than the Reserve Capacity Price. • There was some discussion around the nature of bilateral contracting, spigot control mechanism and the potential for introducing auction. Members also discussed the existence of	

	market power and its interaction with the excess capacity problem. • Discussion ensued on the proposed 110% of MRCP and -3.25 slope. Members also discussed the potential impact of the reduction in MRCP that might come about due to revisions in the Weighted Average Cost of Capital (WACC). • At this point, the Chair invited Mr Ruthven to present the analysis on MRCP with the revised assumptions. He highlighted that this MRCP was only calculated for purely theoretical purposes and should not be taken as the real, binding MRCP for next year. Mr Tan clarified with Ms Yang what the impact of a revised debt risk premium might be on the MRCP. • The Chair concluded that more analysis was needed in terms of the impact of the RCP parameters on the market as it currently stands. He further added that the working group members needed to decide whether a strong case for change to the recommended proposal could not be made. If that was the case, then the working group might consider seeking further advice from the Market Advisory Committee and the IMO Board on whether a more radical approach to the RCM should be examined. The Chair also added that the next RCMWG meeting should focus on working out these issues and recommending a way forward. *Action Item:* • *The Lantau Group to examine the effects of the Reserve Capacity Price proposal with the help of some worked examples.*	
	CLOSED The Chair thanked the members and declared the meeting closed at 5.45 pm.	