

Independent Market Operator

Rules Development Implementation Working Group

Minutes

Meeting No.	9
Location:	IMO Board Room Level 3, Governor Stirling Building, 197 St Georges Terrace, Perth
Date:	Tuesday 22 February 2011
Time:	Commencing at 9.34am to 2.06pm

Attendees	
Troy Forward	IMO (Proxy Chair)
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
Paul Hynch	Office of Energy
Chris Brown	ERA
Jacinda Papps	Minutes
Ben Williams	Presenter
Jim Truesdale	Presenter
Greg Thorpe	Presenter
Preston Davies	Presenter
Ashley Milkop	Presenter
Cameron Parrotte	Observer
Douglas Birnie	Observer
William Street	Observer
Apologies	
Allan Dawson	IMO

Item	Subject	Action
1.	WELCOME AND APOLOGIES / ATTENDANCE The Chair opened the 9th meeting of the Rules Development Implementation Working Group (RDIWG) at 9.34am.	

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	An apology was noted from Mr Allan Dawson.	
2.	<p>PREVIOUS MEETING'S MINUTES</p> <p>The minutes of RDIWG Meeting No. 8, held on 1 February 2011, were circulated prior to the meeting. Members did not make any requests for change.</p> <p><i>Action Point: The IMO to publish the minutes of Meeting No.8 on the website as final.</i></p>	IMO
3.	<p>BALANCING MARKET PROPOSAL</p> <p>The Chair proposed to review the design paper, work through the scenario, discuss the submissions received on the design and then discuss the Cost Benefit Analysis.</p> <p><u>Updated Design Paper</u></p> <p>Mr Ben Williams noted the amendments to each of the 12 proposed stages of the Balancing Market proposal since the RDIWG had last reviewed the paper.</p> <p>The following points were noted:</p> <p><u>Box 1: Bilateral Submission/STEM/NCP</u></p> <p>Members were not certain of the origin, or the rationale, behind the suggestion that Market Customers would be unable to either over- or under-state their demand, noting that the current Market Rules only prohibit the overstatement of demand. Members questioned whether there was any technical reason for the change as opposed to one of philosophy and considered that such changes should be kept to a minimum so as to focus on the proposal on the core problems it is trying to address.</p> <p>In response, it was noted that the change was to ensure that we come out of the STEM with the most accurate day ahead position possible. The following benefits of the proposed amendment were noted:</p> <ul style="list-style-type: none"> • consistency and certainty; and • if the market has contractual arrangements that are physically feasible a day ahead, then commitment decisions are more feasible. <p>System Management noted the more accurate a position there is from STEM the better it is for it as there is already a reasonable amount of variability to deal with i.e. wind generation.</p> <p><i>Action Point: The IMO to review the decision to prohibit Market Customers from either over- or under-stating their demand. When doing so, the IMO to discuss the issue with System Management in greater detail to assess how critical the proposed amendment is.</i></p> <p>A member presented the RDIWG with a document which illustrated the lack of liquidity in the STEM. A copy of the document is available with the meeting papers on the website: www.imowa.com.au/RDIWG.</p> <p>It was questioned whether the group was getting distracted from its</p>	

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	<p>main focus and questioned whether the STEM issue should be parked to be resolved at a later date. A member noted that the objective of the Market Evolution Program was to develop an effective competitive market for Balancing energy, with broader participation in Balancing, where the Balancing prices reflect efficient costs.</p> <p><i>Action Point: The IMO to further discuss the STEM operational issues with Andrew Sutherland and John Rhodes.</i></p> <p><u>Box 2: Resource Plans</u></p> <p>System Management noted that the limits for overshooting would need to be discussed and suggested that the design team capitalise on its tolerance work.</p> <p>Members discussed the reference to Resource Plans being approved by System Management and how this proposal integrates with the 1 minute profile and 6MW per minute ramp rates required in the Power System Operation Procedures (PSOPs). It was noted that validation could be simple (i.e. IT solution) or complex (i.e. a System Management operator validating each Resource Plan). The Chair suggested that a simple solution was more appropriate.</p> <p><u>Box 4: IPP Offers/Bids and Verve Energy PSC</u></p> <p>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.</p> <p><i>Action Point: The IMO to discuss the formation of the Verve Energy Load Following Ancillary Service (LFAS) Portfolio Supply Curve (PSC) with Andrew Everett.</i></p> <p><u>Box 6: Market Forecast</u></p> <p>Members discussed the proposal for forecasts being provided for the expected balancing price if the Relevant Dispatch Quantity is +/- 1%. It was noted that this band intuitively seemed too small. It was agreed that the detail of this would be discussed in detail at a later stage.</p> <p><u>Box 8: Gate Closure</u></p> <p>System Management noted that Gate Closure needs to be resolved. The Chair acknowledged this.</p> <p><u>Box 10: Pricing</u></p> <p>It was noted that this section contained the most change from the previous iteration of the design paper.</p> <p>Members discussed the proposal to use SCADA to derive the Energy Relevant Dispatch Quantity, noting that the final quantities would be settled on meter data.</p> <p><u>Scenarios</u></p>	

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	<p>Mr Jim Truesdale presented the scenario that had been circulated to the RDIWG. The following points were discussed/noted:</p> <p><u>Page 9 of 117:</u></p> <p>It was noted that currently the expected Verve Energy quantities are not loss adjusted. It was agreed that this would be discussed in detail at a later stage.</p> <p>In response to a question from System Management it was noted that the timing of the preparation of the initial Verve Energy dispatch plan would be around 4pm, this is to work with the timing of gas nominations.</p> <p><u>Page 11 of 117:</u></p> <p><i>Action Point: The IMO to update the scenario to include summation information.</i></p> <p><u>Page 12 of 117:</u></p> <p>There was significant discussion regarding the marginal price outcome as presented in the scenario. A member noted that the outcome presented more of an optimised competitive dispatch rather than what his interpretation of what Balancing was.</p> <p><i>Action Point: The IMO to meet with Mr Dykstra to discuss the marginal price outcome in the scenario in greater detail.</i></p> <p><i>Action Point: The IMO to provide an additional scenario(s) to include plant commitment and decommitment.</i></p> <p><u>Page 15 of 117:</u></p> <p>It was agreed that further discussion would be required at some stage regarding the frequency and value of the market update cycle.</p> <p><u>Page 19 of 117:</u></p> <p>It was recognised that System Management would need to develop the appropriate tools to facilitate dispatch and that System Management and the IMO would work together on this.</p> <p>It was noted that, for equipment that is not AGC capable, dispatch instructions would need to be electronic (i.e. SMS, email or via SMMITS).</p> <p><u>Summary of submissions</u></p> <p>The Chair explained the process that the IMO undertook in assessing the submissions received from members on the Balancing market proposal, noting the time constraints that both members and the IMO were under. It was noted that the IMO intends to follow up individually with each submitter. Members considered that it would be valuable to see the content of all the submissions.</p> <p><i>Action Point: The IMO to circulate a collated copy of all the submissions received on the Balancing Market Proposal to members.</i></p>	

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	<p><i>Action Point: The IMO to review its practice of publishing draft minutes on website before made final.</i></p> <p>The RDIWG did not discuss the summary of submissions further.</p> <p>The RDIWG agreed to provide additional comments to the IMO on the Balancing proposal, taking into consideration the meeting discussion and the submissions already received.</p> <p><i>Action Point: Members to provide additional comments to the IMO on the Balancing proposal by 5pm, 4 March 2011.</i></p> <p>Members noted discomfort with the IMO's aim to get RDIWG endorsement of the proposal at the 15 March 2011 meeting.</p> <p><u>Preliminary Cost Benefit Analysis</u></p> <p>Mr Preston Davies circulated a presentation regarding the Cost Benefit Analysis, a copy of this is available with the meeting papers on the website: www.imowa.com.au/RDIWG.</p> <p>The following points were noted/discussed:</p> <ul style="list-style-type: none"> • While the study horizon is 5 - 7 years, it was noted that any investment influenced during that period would span 20 - 30 years. • Correlation between Collgar and the current wind farms is required, noting that ROAM and SKM have both done some work on this. • Prices are in real terms. • A member understood why transfers are not taken into account in the analysis, but noted that these still need to be outlined in general terms. • A member noted the ongoing costs but questioned what the magnitude of the upfront costs would be. It was noted that work on this is still underway. <p><i>Action Point: When undertaking the Cost Benefit Analysis Sapere is to draw on work of ROAM/SKM/ACIL Tasman and MMA (if appropriate).</i></p> <p><i>Action Point: Sapere to provide members with its volume and modelling assumptions for the Cost Benefit Analysis.</i></p> <p><i>Action Point: Members to provide comments on the Cost Benefit Analysis paper by 5pm, 4 March 2011.</i></p> <p><u>Summary</u></p> <p>The Chair requested each member's overall thoughts on the balancing work and progress to date.. Comments included:</p> <ul style="list-style-type: none"> • concern around the complexity, the ambitious timeframes, whether the benefits would outweigh the costs and whether there were simpler ways of achieving the outcomes sought; • concern that the benefits would be largely captured by Market Generators but Market Customers were bearing substantial 	

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	<p>proportion of the cost;</p> <ul style="list-style-type: none"> • support for a competitive balancing outcome, concern about the potential costs versus benefits and the timeframes but acknowledgement that the overnight load issue had kicked off the work (and would start to be solved by it); • acknowledgement of the need to think about the longer term, that there was a need to make competitive balancing work, that the work had to continue and be made consistent with broader strategic workstreams (eg around the Verve/Synergy generator/retailer only constraints) • generally positive support for the proposal although some detail needed to be worked through (eg around gate closure/windows) and that the work needed to continue; • acknowledgement that the proposal seemed complex but had to be, that it would lead to more transparency and complexity but needed to be pushed forward; • acknowledgement that this was work asked for by the industry but concern that the work may have lost its way and that it was too early to make decisions; • interest in gaining an understanding of the level of competition that will result from the hybrid design and proposed changes; • support for the direction of the work but could do with another industry workshop to help people understand it; • optimism about the proposal, that it had nearly arrived at a workable solution, that it was well considered and could be made to work; • supportive of the work, noting some concern of the resourcing implications for Verve and System Management, comment that the proposal was looking “pretty close” <p>One member requested a description of the assumptions being used in the cost benefit analysis. The Chair thanked members for their comments.</p>	
4.	<p>PROJECT TIMEFRAMES/MILESTONES</p> <p>Mr Douglas Birnie outlined the background to the development of the project timeframes and milestones.</p> <p>The following points were noted/discussed:</p> <ul style="list-style-type: none"> • Following RDIWG endorsement the proposal will be presented to the MAC and then the IMO Board; • The Minister has been kept informed of the process and its outcomes, however is not required to sign off the design. The Minister will need to approve any rule changes that are protected provisions; • The timelines are conditional upon the RDIWG, MAC, IMO Board and Rule Change processes. <p><i>Action Point: Members to provide additional comments on the project timelines and milestones by 5pm, 4 March 2011.</i></p>	

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5.	<p>RESERVE CAPACITY REFUNDS</p> <p>Mr Greg Thorpe presented the updated Reserve Capacity Refunds paper, noting the amendments to the previous iteration.</p> <p><i>Action Point: The IMO to show all incremental changes to papers in tracked changes.</i></p> <p>There was discussion on the validity of the use of history to set the refund shape and exposure. A member suggested that Forced Outage rates from plant manufacturers could be used instead. In response, it was noted that historical information provides a benchmark and that there are a number of other arbitrary benchmarks that could be used. It was noted that there is no clear methodology for this across the world, and that there will always be an arbitrary factor in setting a refund shape and exposure.</p> <p>Opinion was divided on the proposal, at one end of the scale it was noted that it presented significant additional risk to participants. However, the contra opinion was that the proposal does not sufficiently reflect the concept of scarcity.</p> <p>The new proposal for the SRC fund was discussed, the following points were raised:</p> <ul style="list-style-type: none"> • Would Market Customers be able to opt in or out? • Should refunds be distributed to Market Customers in their entirety if SRC is not called? Should generators be entitled to a proportion of the refunds back if, for example, they attain a better than 3% Forced Outage rate? Is the current allocation methodology (via IRCR) correct? <p><i>Action Point: The IMO to remove late entry of Griffin Energy in the quantitative analysis in the refunds paper.</i></p> <p><i>Action Point: The IMO to consider whether refunds could be discussed prior to Balancing at the 15 March 2011 meeting.</i></p> <p><i>Action point: Members to provide additional comments on the refunds paper by 5pm, 4 March 2011.</i></p>	
6.	<p>GENERAL BUSINESS</p> <p>There was no general business raised.</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. 10 will be held on Tuesday 15 March 2011 (9.30am-2.00pm).</p>	
9.	<p>CLOSED: The Chair thanked members for the debate and their hard work during the meeting and declared the meeting closed at 2.06pm.</p>	