

Independent Market Operator

MRCPWG

Minutes

Meeting No.	2
Location:	IMO Board Room Level 3, Governor Stirling Building, 197 St Georges Terrace, Perth
Date:	Tuesday 22 June 2010
Time:	Commencing at 1:00 to 3:00pm

Attendees	
Troy Forward	IMO (Chair)
Greg Ruthven	IMO
Fiona Edmonds	IMO (Minutes)
Corey Dykstra	Market Customer
Stephen MacLean	Market Customer
Steve Gould	Market Customer
Patrick Peake	Market Generator
Shane Cremin	Market Generator
Brad Huppatz	Market Generator
Pablo Campillos	DSM Aggregator
Nenad Ninkov	New Investor
Neil Gibbney	Western Power
Alistair Butcher	System Management
Chris Brown	Economic Regulation Authority (ERA) (Observer)
Other Attendees	
Ben Williams	IMO – Observer

Item	Subject	Action
1.	<p>WELCOME AND APOLOGIES / ATTENDANCE</p> <p>The Chair opened the 2nd meeting of the Maximum Reserve Capacity Price (MRCP) Working Group (Working Group) at 1:00pm.</p> <p>The chair welcomed Mr Pablo Campillos as the DSM aggregator representative.</p>	

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2.	<p>MINUTES OF PREVIOUS MEETING</p> <p>The minutes of the 1st MRCP Working Group meeting, held 31 May 2010, were circulated prior to the meeting.</p> <p><u>Page 2: Section 1: Welcome and Apologies</u></p> <p>The Chair requested the following amendment:</p> <p>“The Chair noted that <u>given the market has seen the benefit in operating through the bilateral mechanism rather than the auction</u> there is a risk that the current mechanism may not work if required.”</p> <p><u>Page 6: Section 2: MRCP Scoping Questions</u></p> <p>Mr Chris Brown questioned whether the reference to “30MVa” should read “30MW”? The Chair clarified that Western Power’s transmission map of connection locations that would require minimal deep connection infrastructure is in MVa.</p> <p>The Chair requested the following amendment:</p> <p>“The Chair noted that if an approach like this were to be adopted it would require Wester Power picking winners.”</p> <p>Subject to the agreed amendments the Working Group 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 1 to reflect the points raised by the Working Group and publish on the website as final.</i></p>	IMO
3	<p>ACTION POINTS</p> <p>The actions arising were either complete or on the meeting agenda. The following exceptions were noted:</p> <p>Item 4 – Mr Greg Ruthven noted that this action item was now complete with Working Group members having not identified any additional information they require to determine the work programme.</p> <p>Item 5 – Mr Ruthven noted that the amended Market Procedure for determining the MRCP will be presented to the IMO Procedure Change and Development Working Group for discussion at its 8 July 2010 meeting.</p> <p>Item 6 – Mr Ruthven noted that this action item was now complete with Working Group members having not identified any issues with meeting times. The Chair agreed to Mr Corey Dykstra’s previous request for Working Group meetings to be held at 3pm.</p> <p><i>Action Point: The IMO to notify members of the revised meeting times for future Working Group meetings.</i></p>	IMO
4	<p>FINALISATION OF MRCP SCOPING QUESTIONS</p>	

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	<p>Mr Ben Williams noted that the issues register had been developed by Future Effect based on issues identified in previous submissions, reports and various correspondence received by the IMO in relation to the MRCP and its associated Weighted Average Cost of Capital (WACC).</p> <p>Mr Alistair Butcher questioned the basis for the issue identified regarding whether there was any evidence of market power being held in the capacity market. Mr Williams clarified that this had been raised at the previous MRCP Working Group and related to a Market Participant being able to force an auction.</p> <p>Mr Corey Dykstra suggested that the issues register could be grouped into the following main issues:</p> <ul style="list-style-type: none"> • The cost of connecting an Open Cycle Gas Turbine (OCGT); and • The use of the MRCP in other parts of the Market Rules (penalties, auction and for capacity). <p>Mr Dykstra noted that the issues associated with this second group might fall outside of scope of the Working Group but are still of importance to consider.</p> <p>The Chair suggested the Working Group focus on the second (MRCP Determination) and third (Cost Components) sections of the MRCP Scoping Questions and will consider the first section (MRCP High Level) at a later stage. The Working Group agreed.</p> <p>Mr Williams noted that there may be some overlap between the streams of work which will need to be taken into account. Mr Nenad Ninkov noted that the focus of the Working Group is to review the MRCP Market Procedure and not any other secondary external issues.</p>	
5	<p>REVIEW OF MRCP COMPONENTS</p> <p>To ensure the Working Group could maintain its strict timeframes for the review, Mr Ruthven requested members to identify any MRCP components that may require the input of consultants.</p> <p>Mr Ninkov questioned whether the MRCP should be determined for a real or hypothetical peaking power station. Mr Williams responded that the 2009 MRCP review had been based around a hypothetical situation while for the 2010 review it was based on the costs at which a real project would have been expected to be able to source components. Mr Williams noted that one of the questions for the Working Group's consideration was whether costs should be optimised across all cost types. Mr Dykstra noted that the MRCP should be based on a reasonable estimate of costs for delivering a project otherwise there would be the risk that a project would not be online within the required timeframe.</p> <p>Mr Ninkov noted that if the Working Group chooses an optimised approach input from consultants may be required. The Chair noted that the IMO had used costs based on the cheapest of six land sites, as indicatively determined by Landgate, for the 2010 MRCP review. Mr Cremin noted that cheapest land site may not take into account higher construction costs associated with some</p>	

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	<p>locations. The Chair noted that reasonable costs need to be captured and stated that construction costs do not currently provide any scope for the inclusions of difficult build sites.</p> <p>The Chair noted that if the MRCP is to be determined across a range of locations then a consultant may be required to provide a spread of the complexity of the other components, e.g. construction costs. Mr Campillos questioned whether the consultant could provide a range of values so a sensitivity analysis could be undertaken. The Chair clarified that previously the IMO has just requested one value but could get a range of values if required. Mr Ninkov questioned whether the average, median or higher/lower range values should be used for this purpose. Mr Brad Huppertz noted that the market is put at risk if there are no proponents developing a least cost option and suggested that maybe a profit margin should be included to incentivise this. Mr Cremin noted that the price is determined for a specific machine. Mr Dykstra stated that the overarching question is what level the costs for developing this specific machine are.</p> <p>The Working Group agreed that costs should be realistic and noted that the band of costs may need to be revisited at a later date if rule changes are required.</p> <p>Mr Dykstra suggested that advice from a consultant on the transmission costs and around the WACC would be useful given the technical nature of these components. Dr Steve Gould agreed.</p> <p>Mr Alistair Butcher questioned whether it is premature to seek consultancy advice if the Working Group has not yet agreed whether costs should be optimised or based on a real or hypothetical power station. Mr Dykstra noted that consistency of approach in future years is important and stated that the need for advice is around the process.</p> <p><u>Transmission connection – source of valuation.</u> Mr Butcher questioned whether a consultant is likely to have as much knowledge as Western Power on transmission connection costs. Mr Cremin noted experience with non-real costs being included in its assessment of deep connection costs as a result of Western Power not applying the new facilities investment test. Mr Neil Gibbney noted that the application of the new connection test is a grey area with significant regulatory uncertainty. The Chair suggested getting advice on what is good regulatory practice.</p> <p><u>Shallow connection Costs:</u> Mr Patrick Peake noted the benefit in getting Western Power to provide the cost estimate is that they will be building the transmission line. Mr MacLean noted that the drivers for Western Power differ from those of a consultant who could be set a strict criterion to take into account.</p> <p>Mr Butcher noted that the assumed value to be levied to the access seeker is determined on where they connect. If the assumption is based on a site where there is currently a strong network then the deep connection costs would be expected to be less than being built else where, but deep connection costs may</p>	

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	<p>be very location specific. Mr Peake noted that if network is operating at 98% of its capacity then costs are likely to be high even if the plant is being built at a site with a currently strong network.</p> <p>The Working Group agreed that Western Power would be the appropriate party to determine shallow connection costs. Mr MacLean however noted the benefits of getting a consultant to estimate transmission connection costs. Mr Peake questioned whether Western Power was adequately resourced to complete this estimation. Mr Gibbney agreed that Western Power is, in particular noting that the estimation of shallow connection costs is relatively straight forward. Mr Cremin questioned if there would be merit in paying Western Power to provide these estimates? Mr Gibbney considered this was not necessary. Mr Butcher noted that access applications would have to take precedence over any estimation of shallow connection costs. The Chair requested Western Power to consider whether it could meet this obligation to provide shallow connection costs. Mr Gibbney agreed this was achievable within the required timeframes.</p> <p><i>Agreed Outcome: Shallow connection costs to be provided by Western Power..</i></p> <p><u>Deep connection costs:</u> Mr Gibbney noted that if the Working Group determines to maintain the approach adopted previously of determining six sites then there is likely to be volatility in the results. Mr Gibbney noted that investors in the network would prefer stability even if it cost a little bit more. Mr Gibbney noted that determining an average deep connection cost might be a good idea. The Chair questioned how this would fit into the regulatory environment. Mr Gibbney noted that Western Power could employ a consultant to determine the average cost. Mr Ruthven and Mr Ninkov both noted a smoothing approach may be appropriate. Mr Gibbney agreed noting that members of the Working Group have previously indicated the need for smoothing. Mr Gibbney agreed that it is important to address the issue of volatility as a whole and stated that Western Power is concerned around volatility of transmissions costs outside of the MRCP process. Mr Gibbney noted that there will be uncertainty around the costings for transmission no matter which party undertakes the assessment.</p> <p>The Chair questioned what benefit a consultant could provide in determining the costings. Mr MacLean noted that a consultant might give additional information that Western Power may not consider. Mr Brown noted that the deep connection charges are determined by a set methodology for each individual scenario. Mr Dykstra noted last year the methodology was to determine the gross costs and then apportion these.</p> <p>The Chair questioned whether Western Powers previous approach for estimation of deep connection costs has been reasonable and, if not, what areas may require further external advice. Mr Dykstra suggested Western Power's process to determine these should be reviewed to determine if it is reasonable or if refinements are required. The Chair agreed.</p>	

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	<p>determine the WACC based on the assumption that an auction is held. The Chair suggested that the determination of the WACC on the basis that an auction has been held be provided back to the MAC for consideration in the Market Rules Evolution Plan.</p> <p><i>Action Point: The IMO to prepare scope of works for a consultant to review the current determination of the WACC (based on the assumption that an auction is held), including which parameters to include, the adjustment process and application of the WACC and distribute to Working Group members for comment.</i></p> <p><i>Action Point: The IMO to provide back to the MAC for consideration the Working Group's suggestion that a review of the assumption that an auction is held for the purposes of the determination of the WACC be included in the Market Rules Evolution Plan.</i></p> <p>Mr Butcher questioned whether the WACC should be calculated by the ERA. In response the Chair noted that if the determination of the WACC is well defined in the Market Procedure then any party could complete it. The Chair noted that the ERA's involvement in approving MCAP means there is a level of governance over the IMO's determination. Mr Butcher noted that if the ERA is determining the WACC for other activities then to determine it for the MRCP would ensure consistency. Mr Dykstra noted that there is no issue with the current methodology and that key issue is around the major parameters changing. The Chair agreed and noted that provided robust processes are captured in the Market Procedure a good outcome should result.</p> <p><i>Agreed Outcome: The IMO to continue to calculate the WACC with ERA approval of revised value for the MRCP in accordance with clause 2.26.1 of the Market Rules.</i></p> <p>Land: The IMO noted it currently uses LandGate to provide a valuation of land for the purposes of calculating the MRCP. Mr Dykstra suggested that LandCorp may be more appropriate to provide information on the determined sites.</p> <p><i>Action Point: The IMO to organise for LandCorp to present to the Working Group on what services it can offer for the purposes of determining the MRCP</i></p> <p><i>Action Point: Working Group members to consider out of session if consultancy work is required on any further components identified in Agenda Item 5.</i></p>	<p>IMO</p> <p>IMO</p> <p>IMO</p> <p>IMO</p> <p>Working Group</p>
6	<p>GENERAL BUSINESS</p> <p>There was no general business raised.</p>	
7	<p>NEXT MEETING</p> <p>The next Working Group meeting will be held Friday 2 July 2010 (2:00-4:00pm).</p>	
8	<p>CLOSED</p> <p>The Chair declared the meeting closed at 3.00 pm.</p>	