



Terms of Reference: Reserve Capacity Mechanism Working Group

1. BACKGROUND

The Reserve Capacity Mechanism Working Group (RCMWG) has been established, in accordance with Clause 2.3.17 of the Wholesale Market Rules and the associated Section 9 of the Constitution of the Market Advisory Committee (MAC). Consistent with these authorised functions and powers, the overarching function of *any* Working Group established under the MAC is to assist the MAC in providing advice to the Independent Market Operator (the IMO) and System Management in matters relating to Wholesale Electricity Market (WEM) Rule and Procedure Change Proposals, WEM operation and South West interconnected system (SWIS) operational matters, and the evolution of the Market Rules more generally.

2. SCOPE

The RCMWG's Scope of Work includes consideration, assessment and development of changes to the Market Rules associated with the issues raised, and recommendations made, by The Lantau Group in its report *Review of RCM: Issues and Recommendations*. This issues list is attached as Appendix 1 to this document.

3. TERMS OF REFERENCE

The RCMWG is to:

- Prioritise the issues highlighted in the report by The Lantau Group into an appropriate number of development work streams;
- Agree a work plan and timeline for consideration of each of the work streams; and
- Develop an integrated suite of solutions, including drafted Concept Papers and Rule Change Proposals to be presented to the MAC by way of presentation/s and supporting discussion paper/s.

The Rule Change Proposal(s) must include an assessment prior to any recommendations being put forward to the MAC, including:

- Consideration of the implications of any changes on improving the delivery of the Market Objectives;
- Detailed feedback as to the implications to the operation of the existing WEM processes and physical outcomes; and
- Consideration of the financial costs and benefits of implementation.

Consistent with Section 9.5 of the MAC Constitution, all matters which are identified as falling outside the Scope and Terms of Reference of this RCMWG must be referred back to the MAC for consideration.



4. OBJECTIVES AND PRINCIPLES

The RCMWG must provide advice and report the extent to which its advice meets or is consistent with the Wholesale Market Objectives and the general principles reflected in the current Market Rules.

The Market Objectives are as outlined in Section 122 of the Electricity Industry Act 2004 and Clause 1.2.1 of the Market Rules.

5. MEMBERSHIP

The RCMWG consists of a Chair and members appointed by the IMO from nominees, being representatives of Rule Participants and other interested stakeholders: In addition, staff, representatives and consultants of the IMO work with and support the group. Replacement and or new nominees can be submitted to the MAC for consideration at any time.

6. TENURES

The Chair and members are appointed by the IMO and remain in tenure until the appointment is duly revoked by the IMO or the RCMWG is disestablished.

A member of the RCMWG may resign by giving notice to the IMO in writing; this notice of resignation can include an appropriate replacement from the member's entity, for approval by the IMO.

7. RESPONSIBILITY OF THE CHAIR

The Chair provides guidance to the group to ensure that the outputs are appropriate and that they support the RCMWG's role of providing advice to the MAC. The Chair works closely with the MAC, the IMO and the Working Group to achieve this.

In carrying out the above role, the Chair must ensure the documented output reflects a balanced representation of the group views.

8. RESPONSIBILITY OF MEMBERS

Members have been selected for their particular expertise and accordingly:

- Members are to make themselves available for meetings;
- Members have a duty to prepare for meetings;
- If sending alternates, members have a duty to ensure their alternates are sufficiently briefed and prepared for meetings;
- Members, or their alternates, are to consider the interests of all stakeholders currently operating within the WEM;



- Members, or their alternates, do not represent their own organisations (although the range of commercial and technical experience inevitably adds diversity to the group's capabilities); and
- Any views expressed by members, or their alternates, are not to be taken as being those of their employer or nominating organisation.

9. KEY TASKS AND MILESTONES – THE WORK PLAN

The Chair works with both the IMO and RCMWG to develop the Work Plan, setting out the key tasks and milestones within the Terms of Reference.

The Chair has responsibility for the implementation of the approved Work Plan, efficient meetings of the RCMWG and reporting to the MAC on achievement of agreed milestones.

The RCMWG must provide its report to the IMO Board within nine months of its inception in February 2012.

10. NATURE OF DELIVERABLES

The RCMWG delivers reports, advice and comments on the tasks within the scope of the Terms of Reference and as agreed and set out in the Work Plan. Such deliverables may be varied from time to time by direct request from the Chair of the MAC.

In some circumstances, the MAC may decide that comments, rather than advice, are required from the group. These circumstances may arise due to:

- Issue complexity and contentiousness;
- Parallel industry-wide consultation; and
- Time frames.

The documented output in those circumstances would note the various issues raised by the group and advise on them.

11. REPORTING ARRANGEMENTS

Routine reporting will be via RCMWG reports to the MAC. Consistent with section 9.4 of the MAC Constitution, the RCMWG must report back to the MAC at each MAC meeting. The Chair will also personally report to the MAC at agreed key milestones.

12. ADMINISTRATION

The RCMWG activities are to be as transparent as practical. The Chair must ensure that key decisions and action points from meetings are recorded.



Appendix 1: Issues/Recommendations to be considered by the Working Group

The issues to be addressed by the RCMWG are:

1. The consistent capacity surpluses secured in the WEM;
2. The pricing of capacity in oversupply conditions;
3. The additional costs imposed on the market as a result of surplus capacity;
4. The role of Demand Side Management in the RCM;
5. The fuel requirements imposed on generation capacity providers;
6. The allocation of capacity costs to Market Customers; and
7. The alignment of the Reserve Capacity refund regime and the Reserve Capacity Mechanism.
8. The impact of forecasting inaccuracy on the Reserve Capacity Requirement.

In relation to these issues, The Lantau Group has recommended:

- Amendment of the formula for calculating the Reserve Capacity Price;
- Implementation of a dynamic Reserve Capacity refund regime, in which the value of refunds is linked to system conditions;
- Harmonise the treatment of demand-side and supply-side by increasing the minimum availability requirement for Demand Side Programmes;
- Refinement of the fuel supply requirement;
- Refinement of the method for determining Individual Reserve Capacity Requirements; and
- Periodic review of the Reserve Capacity Mechanism.