

Meeting Agenda

Meeting Title: Market Advisory Committee

Date: Tuesday 30 April 2019

Time: 9:30 AM – 11:30 PM

Location: Training Room No. 2, Albert Facey House
469 Wellington Street, Perth

Item	Item	Responsibility	Duration
1	Welcome	Chair	5 min
2	Meeting Apologies/Attendance	Chair	5 min
3	Minutes of Meeting 2019_02_05	Chair	5 min
4	Actions Items	Chair	5 min
5	MAC Market Rules Issues List	Chair	15 min
6	Update on the Network and Market Reform Program		
	(a) Status Update (verbal update – no paper)	PUO	5 min
	(b) Market Design and Operation Working Group (MDOWG) Update (verbal update – no paper)	PUO	5 min
	(c) Power System Operation Working Group (PSOWG) Update (verbal update – no paper)	AEMO	5 min
7	AEMO Procedure Change Working Group Update	AEMO	5 min
8	Rule Changes		
	(a) Overview of Rule Change Proposals	Chair	15 min
	(b) Pre-Rule Change Discussion on Capacity Valuation for intermittent Generators	ERA	20 min

Item	Item	Responsibility	Duration
9	Conflict of Interest Considerations	Chair	20 min
10	AEMO Allowable Revenue (AR5) Process	ERA	5 min
11	General Business	Chair	5 min

Next Meeting: 11 June 2019

Please note, this meeting will be recorded.

Minutes

Meeting Title:	Market Advisory Committee (MAC)
Date:	5 February 2019
Time:	09:35 AM – 12:10 PM
Location:	Training Room No. 1, Albert Facey House 469 Wellington Street, Perth

Attendees	Class	Comment
Stephen Eliot	Chair	
Matthew Martin	Minister's Appointee – Small-Use Consumer Representative	
Martin Maticka	Australian Energy Market Operator (AEMO)	
Dean Sharafi	System Management	
Sara O'Connor	Economic Regulation Authority (ERA) Observer	
Will Bargmann	Synergy	
Margaret Pырchla	Network Operator	
Jacinda Papps	Market Generators	
Shane Cremin	Market Generators	
Wendy Ng	Market Generators	
Andrew Stevens	Market Generators	From 9:40 AM
Patrick Peake	Market Customers	
Geoff Gaston	Market Customers	
Steve Gould	Market Customers	
Peter Huxtable	Contestable Customers	

Apologies	Class	Comment
None		

Also in attendance	From	Comment
Aden Barker	Public Utilities Office (PUO)	Presenter to 10:20 AM
Claire Richards	Enel X	Presenter
Matt Shahnazari	ERA	Presenter

Julian Fairhall	ERA	Presenter
Oscar Carlberg	Synergy	Observer
Ben Williams	Synergy	Observer
Noel Schubert		Observer
Juan Cifuentes	Energy Made Clean	Observer
Kei Sukmadjaja	Western Power	Observer
Steven Kane	ERA	Observer
Scott Davis	Australian Energy Council	Observer
Natalie Robins	RCP Support	Observer

Item	Subject	Action
1	Welcome	
	The Chair opened the meeting at 9:35 AM and welcomed members and observers to the 5 February 2019 MAC meeting.	
2	Meeting Apologies/Attendance	
	The Chair noted the attendance as listed above.	
3(a)	Minutes from Previous Meeting	
	Draft minutes of the MAC meeting held on 20 November 2018 were circulated on 13 December 2018. The Chair noted that a revised draft showing tracked changes suggested by RCP Support was distributed in the meeting papers.	
	Subject to these changes, the MAC accepted the minutes as a true and accurate record of the meeting.	
	Action: RCP Support to amend the minutes of the 20 November 2018 meeting to reflect the agreed changes and publish them on the Rule Change Panel's (Panel's) website as final.	RCP Support
4	Action Items	
	The closed action items were taken as read.	
	Action 19/2017: Open – to be progressed as part of the Wholesale Electricity Market (WEM) Reform Program.	
	Action 33/2017: In response to a question from the Chair, Mr Matthew Martin advised that the PUO's review of the current list of Protected Provisions would be progressed as part of the WEM Reform Program.	
	Action 33/2018: Mr Dean Sharafi advised that System Management issues Operating Instructions to individual Synergy	

Item	Subject	Action
	<p>Facilities for Commissioning Tests, Reserve Capacity Tests, and Network Control Services and Ancillary Service Contracts, but not to the Balancing Portfolio in the situations contemplated in the Rule Change Proposal: Removal of constrained off compensation for Outages of network equipment (RC_2018_07).</p> <p>Mr Martin Maticka noted that Mrs Jacinda Papps had asked at the previous MAC meeting about the implications of recalculating Theoretical Energy Schedule (TES) quantities after the current 15 Business Day deadline. Mr Maticka advised that AEMO can and actually has re-run the calculations in the past for various reasons. The Market Participant Interface displays the latest TES calculation results and AEMO also keeps records of previous calculations.</p> <p>Mr Maticka queried whether a change to allow the recalculation of TES should be included in the MAC Market Rules Issues List (Issues List), given that it was a fairly straight forward technical implementation. Mrs Papps suggested that a Rule Change Proposal be considered if the IT costs were not as high as previously thought.</p> <p>Ms Jenny Laidlaw noted that AEMO recently provided advice to RCP Support on options to support the late logging of Forced Outages; and in particular on options to ensure that any unwarranted constrained off compensation was recovered through the settlement adjustment process. AEMO had proposed an option involving the recalculation of TES, which RCP Support had discounted due to its high cost. Mr Maticka and Ms Laidlaw agreed to review the assumptions behind the two estimates at a discussion on the Rule Change Proposal: Administrative Improvements to the Outage Process (RC_2014_03) that was scheduled for 8 February 2019.</p>	
	<p>Action: AEMO and RCP Support to clarify the assumptions behind the IT cost estimates provided to RCP Support in 2018 and to the MAC on 5 February 2019 to support the recalculation of TES after the current 15 Business Day deadline; and to report back on the outcomes to the MAC.</p>	<p>AEMO/ RCP Support</p>
5	<p>MAC Market Rules Issues List</p> <p>The MAC noted the recent updates to the Issues List.</p> <p>Mrs Papps requested that a change to allow the recalculation of TES after the current 15 Business Day deadline be included on the Issues List as a potential Rule Change Proposal.</p> <p>The Chair noted his advice from the PUO that the PUO and AEMO intend to consider how to manage future scenarios</p>	

Item	Subject	Action
	<p>where multiple generation units on a single line create the largest credible contingency as part of the WEM Reform Program. The MAC agreed to include this issue on the Issues List, and to place it on hold pending the outcomes of the WEM Reform Program.</p> <p>In response to a question from the Chair, the MAC agreed to delay its next full review of the Issues List until later in the year.</p>	

6 Update on the Network and Market Reform Program

Mr Aden Barker provided the following updates on the WEM Reform Program.

- Mr Barker noted that during the 11 December 2018 WA Electricity Consultative Forum (**WAECF**) he referred to several consultation papers due for imminent release, including a market design proposals paper; an overview paper regarding the WEM Reform Program, its scope and processes, and information about the approach to a cost/benefit analysis or quantitative analysis for the benefits of reform; and a final report for the proposed Reserve Capacity Mechanism (**RCM**) pricing changes and draft exposure Market Rules. However, a new Minister for Energy was appointed shortly after this WAECF meeting, which has understandably led to some delay in the release of those papers.
- The PUO met very recently with the Minister to discuss the reform program in general, providing an overview of the proposed process and scope, as well as details of the proposed RCM pricing changes. The Minister had also met with various stakeholders from industry about these matters. The PUO received broad support from the Minister for the shape and form of the reform program, for the release of the consultation papers (which now need to go through the internal processes of review and to the Minister), and also for the RCM pricing changes. The PUO was finalising those pieces of advice for the Minister for his consideration and subsequent public release.
- With respect to the RCP pricing changes, the intent and advice to the Minister is that acting now will reduce the risk of needing to defer the 2019 Reserve Capacity Cycle.
- While the release of papers has been delayed, this was not delaying the work being undertaken under the reform program. For example, the PUO has received advice from its consultants with regard to Ancillary Services definitions that are appropriate now and in the future; and was also reviewing advice on a future generation mix.

Item	Subject	Action
	<ul style="list-style-type: none"> • The first Market Design and Operation Working Group (MDOWG) meeting is scheduled for 20 February 2019. While the market design proposals consultation paper may not be published by then, the PUO proposed to discuss the essence of the proposals and elicit feedback from attendees. The PUO also intended to have one of its consultants provide an overview of the approach to be taken for quantitative analysis to assist with developing various proposals, and to quantify the net benefits for the reform package as a whole. • The PUO will also provide a forward agenda for the remaining MDOWG meetings. The PUO was planning monthly meetings in the first instance, but considered it highly likely that additional meetings will be needed. The PUO intended to follow a fairly similar format for the MDOWG meetings to that established by the Power System Operation Working Group (PSOWG). • Mr Barker noted that everything presented in the proposed consultation papers will have been previously discussed at a MDOWG or PSOWG meeting. • The initial due diligence and examination of issues by AEMO and the PUO suggests that there will be ways for large-scale storage to participate in the WEM before the revised market arrangements commence in October 2022. The PUO planned to provide further information on the matter at the next MAC meeting. <p>In response to questions from Mr Shane Cremin, Mr Barker advised that:</p> <ul style="list-style-type: none"> • the PUO had engaged GHD to undertake the Ancillary Services definition work; and • the PUO's initial view was that the Standard Rule Change Process would not allow the RCM pricing changes to be implemented in the required timeframe, so the changes would need to be implemented via the Minister's repeal and replace powers. <p>Mr Barker noted that the 20 February 2019 MDOWG meeting would be held at Albert Facey House.</p> <p>Mr Sharafi advised that the next PSOWG meeting will be held on 11 February 2019. Agenda items included updates on the proposed constraints framework, the primary frequency control modelling being undertaken by AEMO, and the ancillary services framework that GHD is working on with AEMO.</p>	

Item	Subject	Action
7	AEMO Procedure Change Working Group (APCWG) Update	
	<p>Mr Maticka advised that the next APCWG meeting is planned for 21 February 2019, and will discuss Market Procedure changes relating to the Rule Change Proposal: Reduction of prudential exposure in the Reserve Capacity Mechanism (RC_2017_06).</p> <p>The MAC noted the update on AEMO's Market Procedures.</p>	
8(a)	Overview of Rule Change Proposals	
	<p>The MAC noted the overview of Rule Change Proposals.</p>	
8(b)	Calculation of Relevant Demand for Demand Side Programmes	
	<p>Ms Claire Richards from Enel X gave a presentation in support of Enel X's Pre-Rule Change Proposal regarding changes to the method used to calculate the Relevant Level of a Demand Side Programme (DSP). A copy of the Pre-Rule Change Proposal is available in the meeting papers.</p> <p>The following points were discussed.</p>	
	<ul style="list-style-type: none"> • Mr Cremin asked how Capacity Credits for a DSP would be determined if the baseline for the DSP was dynamically determined using information available only days before an event. Ms Richards replied that under the National Electricity Market's Reliability and Emergency Reserve Trader (RERT) program, Enel X receives availability payments for a portfolio of 30 MW, and also receives energy payments whenever it is dispatched. AEMO generally assumes the 30 MW is available, but will contact Enel X if a dispatch seems likely to confirm that the full quantity will be available for dispatch. • Mr Andrew Stevens considered that a dynamic baseline methodology would be good for determining energy payments, but reiterated Mr Cremin's concern about how the dynamic baseline method could be used to determine Capacity Credits. 	
	<p>Ms Laidlaw noted that DSPs are allocated Capacity Credits before they are required to identify any Associated Loads. This means that the current static baseline of a DSP is also uncertain until just before an event. However, if the DSP's Relevant Demand is too low for its Capacity Credits then the Market Customer is liable for Capacity Cost Refunds.</p>	
	<ul style="list-style-type: none"> • Mr Stevens expressed a preference for the current 'interim' arrangements, under which DSPs receive a lower capacity price but a higher energy price when dispatched. 	

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	<p>Mr Stevens considered that the current baseline methodology was unfair under the current arrangements. However, if DSPs were to receive the same level of capacity payments as generators, then a methodology based on consumption during the 12 peak Trading Intervals used for Individual Reserve Capacity Requirement (IRCR) calculation (IRCR Trading Intervals) would be problematic.</p>	
	<ul style="list-style-type: none"> • Mr Peter Huxtable noted that if DSP baselines were calculated using the median consumption of the Associated Loads during IRCR Trading Intervals, a 1 MW Load would receive payment for 1 MW of capacity. However, in addition to having to make the capacity available when required, the Load would still incur IRCR costs for around 1.4 MW, i.e. the Load would still be liable for the additional 0.4 MW. • Mr Geoff Gaston noted that previously it was proposed to determine the baseline contribution of an Associated Load using its IRCR contribution, i.e. its median consumption adjusted by the relevant TDL_Ratio or NTDL_Ratio. Mr Gaston and Mr Huxtable agreed that the ratio-adjusted values should not be used to calculate DSP baselines, as they did not represent the available capacity of the Associated Loads. • There was some discussion about the problems of using a static baseline for Loads with variable consumption patterns. • Mr Ben Williams noted that if the baseline was set using median consumption over the IRCR Trading Intervals, then in half of those Trading Intervals the Load's consumption would be insufficient to provide all the capacity for which it was being paid. Mr Williams considered that if a generator could not meet its Reserve Capacity Obligation Quantity 50% of the time then serious questions would be asked about whether it should be receiving that number of Capacity Credits. 	
	<p>Ms Richards replied that under the current methodology a DSP would typically be consuming at a significantly higher level than its baseline for a large proportion of its required 200 hours. Ms Richards considered there was very little reason for Loads in most industry sectors to provide this quantity of reduction for free, even if DSPs were to receive the same capacity price as generators. Ms Richards predicted that no DSP capacity would return to the market under the current baseline methodology. Mr Stevens considered that this would not be a problem at present.</p>	

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	<ul style="list-style-type: none"> Mr Williams noted that under the proposed Relevant Level Methodology the output of wind farms would be likely to exceed their Capacity Credit level most of the time. There was some discussion about the services provided by DSPs and Non-Scheduled Generators and the extent to which their certification should be harmonised. Ms Laidlaw noted that the previous Minister increased the capacity obligation for DSPs from 24 hours to 200 hours. Ms Laidlaw considered that, leaving aside whether a median or probability of exceedance approach should be used, the number of Trading Intervals required to calculate a static baseline in part depended on how many hours the DSPs might be needed. Ms Laidlaw questioned why 200 hours had been selected and whether DSPs needed to be available for this long. <p>Mr Martin noted that the Electricity Market Review had sought greater harmonisation of the requirements for DSPs and generators, and the 200 hour requirement was based on the time period when it was considered that DSPs could be providing value.</p>	
	<ul style="list-style-type: none"> In response to a question from Mr Cremin, Ms Richards explained that RERT contracts are individually negotiated and there is no transparency around the pricing arrangements, which can include different combinations of capacity and energy payments. 	
	<ul style="list-style-type: none"> Ms Richards asked whether MAC members agreed that Enel X's concern with the current baseline methodology was an issue that should be consulted on through a Rule Change Proposal. Mr Cremin and Mr Stevens considered there was a case for changes to the baseline methodology under the current capacity pricing arrangements. However, they were opposed to DSPs receiving the full Reserve Capacity Price on the basis that they provided an energy product and not a capacity product. There was extensive discussion about the capacity and energy services provided by DSPs and how they should be remunerated by the market. 	
	<ul style="list-style-type: none"> Mr Cremin suggested the Supplementary Reserve Capacity concept should be reviewed, because it could provide an appropriate mechanism to manage the contribution of DSPs to the market. Mr Williams and Mr Maticka questioned whether limiting DSPs to the provision of Supplementary Reserve Capacity would produce the most efficient outcomes when the market needed a small additional quantity of capacity. Mr Williams noted that the initial 	

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	<p>certification process for a Capacity Year occurs two years before the trigger point for Supplementary Reserve Capacity.</p> <p>Mr Patrick Peake advised that on the occasion the IMO called for Supplementary Reserve Capacity it received numerous offers, all from DSPs. Mr Peake confirmed that the capacity was not actually used and there was no transparency around the contract prices.</p>	
	<ul style="list-style-type: none"> • Ms Laidlaw noted that AEMO had developed dynamic baselines to support the RERT, and questioned to what extent AEMO may be able to re-use this work for the WEM. Mr Maticka advised that AEMO would need to look into the detail to see how transportable the calculations were. • Mr Peake considered that if DSPs were to receive the same capacity payments as generators, then it would not be acceptable for them to have a baseline that was frequently above their actual consumption level. Mr Peake agreed with Mr Cremin that too much DSP capacity had been removed from the market, but felt that DSP availability requirements and capacity prices needed to be considered as a package. Mr Williams agreed with the views expressed by Mr Peake. • Mr Maticka advised that AEMO could not determine how straightforward the changes would be to implement until it saw the drafting of the proposed Amending Rules, and suggested that Enel X amend the wording of its Pre-Rule Change Proposal accordingly. • Mr Huxtable agreed with Ms Richards that the proposed changes to the capacity price for DSPs will not bring any more DSP capacity into the market unless changes are also made to the baseline methodology. • The Chair noted the different views expressed during the discussion, and considered that future discussion should not be restricted to the approach put forward by Enel X in this first draft Pre-Rule Change Proposal. The Chair suggested that it may be useful to look at how other capacity markets treat the demand side management (DSM) product. • There was some discussion about the proposed changes to RCM pricing, how these changes would apply to DSPs, and the effect of a large-scale return of DSP capacity (i.e. 500-600 MW) on the capacity payments of existing and future generators. • Ms Richards advised that Enel X could investigate how other markets certify DSM capacity two years in advance 	

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	<p>and send its findings to the Chair for circulation to the MAC. However, Ms Richards observed a need for a fundamental discussion about the role of DSPs in the RCM, and questioned whether this should occur through Enel X's Rule Change Proposal or some other mechanism.</p> <p>There was some discussion about options to further consider these broader questions. The Chair noted that further MAC discussion of the issues could be scheduled, but questioned the relative urgency of this work. There was general agreement that this was a relatively low priority issue, at least until the final paper for the Minister's changes to RCM pricing was released.</p>	
	<ul style="list-style-type: none"> • Mr Cremin questioned the independence of research undertaken by Enel X into other capacity markets. Mr Stevens considered the required investigation and development of Rule Change Proposals should be undertaken by the agencies funded by Market Participants (i.e. AEMO and the ERA). There was some discussion about the role of these agencies and the PUO in market development, and the relative priority of this issue compared with the current work programs of those agencies. • The Chair noted that the MAC did not appear to consider the issue had a higher priority than the work being done under the WEM Reform Program. Enel X was however free to submit a Rule Change Proposal and/or provide further information to the MAC for its consideration. • Ms Richards considered the main concerns related to how to certify capacity two years in advance under a dynamic baseline approach, and how much should be paid for DSP capacity. Ms Richards offered to investigate these questions, and provide extracts of rules and details of people who could be contacted to verify the information provided. The Chair agreed that this additional information would be helpful. • Mr Williams noted that the WEM was one of the few capacity markets that did not also have a scarcity price for energy. 	
8(c)	<p>Behind-the-meter generation affecting a facility's NTDL status</p>	
	<p>Mr Stevens provided an overview of the issue discussed in the agenda item paper, which relates to the installation of a solar PV system at a site changing the load at the site from a</p>	

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	<p>Non-Temperature Dependent Load (NTDL) to a Temperature Dependent Load (TDL).</p> <p>Mr Stevens considered the example raised a broader question of whether the NTDL and TDL concepts were still relevant given the changes to system demand over recent years. On a more detailed level, Mr Stevens questioned whether the specific issue could be resolved by installing a revenue-quality meter on the PV system, and using the interval data to adjust the site's metered demand in the relevant Trading Intervals for the purpose of NTDL assessment.</p> <p>The following points were discussed.</p> <ul style="list-style-type: none"> • Ms Laidlaw considered that while it may be reasonable to assess the site as a 40 MW NTDL, it would not be reasonable to assess it as a 37 MW NTDL because the site was regularly consuming at 40 MW during peak Trading Intervals. <p>Ms Laidlaw suggested that another option could be to allow a Market Customer to nominate its NTDL MW consumption level, which would replace the calculated median value for IRCR calculation provided the Load did not exceed that consumption level. Mr Cremin considered that this approach would be consistent with what was done in the past in relation to NTDLs.</p> <ul style="list-style-type: none"> • Mr Williams considered that Mr Stevens' suggestion for a solar PV adjustment would effectively assign a 'median' capacity value to those PV systems, while other solar facilities were assigned a capacity value based on a probability of exceedance. This would create very different incentives for solar capacity in front of the meter and behind the meter. • Mr Williams questioned whether the NTDL calculations reflected their intent. Mr Cremin explained that the current version of the NTDL calculation was introduced to account for the Boddington load, which did not qualify as an NTDL under the original calculation because of differences between its day-time and night-time demand. • Mr Cremin noted that when the TDL and NTDL concepts were developed there was a strong desire to incentivise temperature-independence, due to concerns about the rate at which peak system demand was increasing. Mr Cremin questioned whether the system was still as temperature-dependent and whether the rationale for the TDL and NTDL classification still applied. 	

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	<ul style="list-style-type: none"> • There was some discussion about the appropriateness of the current IRCR calculations and the associated classification of Loads as TDLs or NTDLs, in particular given the changing SWIS demand profile. • Mr Peake suggested that the issue could be considered as part of the ERA's annual review of the effectiveness of the WEM (WEM Review). Mr Williams asked whether the issue was included on the Issues List. Ms Laidlaw replied that a broader issue for preliminary discussion, which covered several RCM issues that were not being addressed by the WEM Reform Program, was included on the Issues List. • Mr Williams asked whether the PV system in Mr Stevens' example could be registered as a generator, and metered and assessed for RCM purposes separately to the load. Mr Cremin and Mr Gaston considered that this would not provide a simple solution due to the network connection issues involved. 	

9 Wholesale Electricity Market Review 2017/18 Discussion Paper (presentation – no paper)

Mr Julian Fairhall gave a presentation to the MAC on the ERA's discussion paper for its 2017/18 WEM Review. A copy of the presentation is available on the Panel's website.

Mr Fairhall sought input from the MAC on the issues raised in the discussion paper. The following points were discussed.

- In response to a question from Mr Cremin, Mr Fairhall confirmed that the cost stack prices in slide 3 of the presentation were expressed in real rather than nominal terms. In response to a question from Mr Stevens, Mr Fairhall clarified that the carbon adjusted energy prices in slide 3 related to Balancing Prices.
- In response to a question from Mr Stevens, Mr Fairhall clarified that the ERA found the output of coal plant remains comparable with previous years in absolute terms.
- Mr Will Bargmann asked whether the gas fuel prices shown on slide 4 of the presentation were spot prices. Mr Fairhall replied that suppliers are obligated to report to the Government their revenue under the royalty framework, and the prices in slide 4 were determined from the total revenues reported divided by the total volumes reported. The prices did not therefore take into account downstream swaps or what was occurring in the spot market, where prices were actually lower.

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	<p>Mr Bargmann considered that the prices may be misleading because they did not take into account certain minimum terms that generators have to enter into to meet their obligations, such as those under the Market Rules. Mr Bargmann noted that a generator of Synergy's size had no choice but to lock into long-term contracts, the effect of which was not reflected in the prices in slide 4.</p> <p>Mr Fairhall asked if Mr Bargmann expected a new generator would pay above the gas prices shown. Mr Bargmann replied that he did not currently expect any new generators to enter the market, but did not consider this indicated a lack of competition. Mr Williams considered that no generators wanted to enter the market because there is already too much competition. Mr Fairhall considered that just because it was difficult to compete in a market did not mean the market was competitive.</p>	
	<ul style="list-style-type: none"> <li data-bbox="320 898 1155 1189">• Mr Peake considered that part of the issue related to the difference between the buy-back price for rooftop solar (\$71/MWh) and mid-day Balancing Prices. Mr Peake expressed a fear that the Government would provide a subsidy for batteries that failed to achieve its intended outcomes, and suggested that the 'duck curve' problem would continue to grow without better policy around the management of solar buy-back. <li data-bbox="320 1211 1155 1279">• Mr Peake agreed with Mr Bargmann that no new generators were likely to enter the market. <li data-bbox="320 1301 1155 1738">• Mr Cremin considered that the ERA's index for energy prices was too high, and suggested that tracking the prices on a monthly basis showed a bigger variation in pricing arising from the changing dynamic of demand in the SWIS. Mr Cremin suggested that while prices were lower in the middle of the day, this was leading to higher prices in the evening and morning peaks because of the need for fast ramping. Mr Cremin noted that the peak was being met with industrial gas turbines that were not well suited for flexible running up and down. It was unclear whether the lower day time prices or the higher peak period prices had the dominant effect. <li data-bbox="320 1760 1155 1977">• Mr Cremin considered that, contrary to the general assumption, there had been a large reduction in demand over the last two years, with a further reduction in January 2019 despite that month being hotter than usual. Mr Maticka and Mr Fairhall noted that temperatures in the SWIS were actually below average over January 2019. 	

Item	Subject	Action
	<ul style="list-style-type: none"> • Mr Sharafi asked what the ERA meant by “planning systems” in slide 9 of the presentation. Mr Fairhall replied that the ERA was interested in whether the Reserve Capacity Cycle planning mechanisms were actually identifying the opportunities that exist. Mr Sharafi noted that this covered only one aspect of the market, and considered that to be able to identify the right opportunities for the market, the planning needed to look at every aspect of the market and the system. There was some discussion about the work being undertaken by the WEM Reform Program on the need for an integrated system plan. • Mr Stevens suggested that the current higher energy prices may to some extent be due to unavoidable costs associated with the transition from the old generation mix to the new (e.g. losses relating to long-term contracts and plant becoming unviable). • Mr Cremin noted that over \$2 billion had been spent on solar PV in the SWIS. • There was some discussion about the Government’s response to the ERA’s previous WEM Reviews; and whether the reviews should be conducted less frequently (e.g. every 2-3 years). • Mr Stevens noted that he had recently asked the Minister about the battery-related pilot projects being conducted by organisations including Synergy, Power Ledger and Western Power. Mr Stevens’ question was whether the purpose of the projects was to determine what was needed to open these opportunities to the broader market, or to provide a competitive advantage to the organisations involved. 	
	<p>Mrs Papps noted that the Government’s inquiry into microgrids and associated technologies in WA was looking at that exact question. Mrs Papps considered it was important to ensure that different reviews did not duplicate each other’s work. Mr Fairhall suggested that if stakeholders indicated any related submissions to other reviews in their WEM Review submission, the ERA would be able to take this additional information into account.</p>	
	<p>Mr Fairhall noted that the submission period for the WEM Review closed on Friday 8 February 2019.</p>	

Item	Subject	Action
10	<p>Review of the Method for Capacity Valuation of Variable Generation</p> <p>Dr Matt Shahnazari gave a presentation to the MAC on the ERA's review of the Relevant Level Methodology. A copy of the presentation is available in the meeting papers.</p> <p>The following points were discussed.</p> <ul style="list-style-type: none"> Mr Williams queried the reason for allocating the fleet capacity value among individual Facilities using both peak demand and peak 'load for scheduled generation' (LSG) Trading Intervals, rather than just using peak LSG Trading Intervals. Dr Shahnazari replied that, for example, solar Facilities will tend to move the periods of minimum surplus to later in the day when their own performance is lower. Not including peak demand Trading Intervals might fail to recognise the capacity contribution made by these Facilities. <p>Mr Williams considered <u>questioned whether</u> it was inconsistent to value the fleet based on loss of load probability and then allocate that capacity to individual Facilities based on a different measure. Dr Shahnazari noted that once the minimum surplus was no longer occurring in the early afternoon, any additional solar would not increase the fleet capacity value. Dr Shahnazari suggested this would provide a deterrent to further investment in solar. Mr Williams considered that <u>questioned whether</u> additional solar in these circumstances would be a problem for other generators, as it would not increase the fleet value, but would be awarded a share of that value because of its performance at times of peak demand.</p> <ul style="list-style-type: none"> Mr Cremin considered that the increasing penetration of solar (both behind-the-meter and Registered Facilities) would increase the Capacity Credits for wind farms while reducing the Capacity Credits of solar Facilities. Mr Cremin questioned whether solar Facilities needed Capacity Credits to be viable. Mr Gaston asked how the proposed methodology would be affected by situations where multiple generators on a single transmission line comprise the largest credible contingency, and some of those generators are constrained off to avoid excessive Spinning Reserve costs; and in particular how the Capacity Credits of those generators would be affected. Dr Shahnazari noted that the PUO's proposed method for allocating Capacity Credits under a constrained network access regime took network and security constraints into 	

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	<p>account. Dr Shahnazari considered that the Relevant Level Methodology also taking these constraints into account might cause some 'double counting'.</p> <ul style="list-style-type: none"> Ms Laidlaw noted that the methodology made assumptions about the availability of Scheduled Generators, which could be affected by the operation of network constraints. Dr Shahnazari considered that if a Scheduled Generator was heavily constrained by network congestion then it might become necessary to develop a way to include this information in the model. However, the model currently developed by the ERA did not do this. 	
11	MAC Schedule	
	The MAC noted the MAC meeting schedule for 2019.	
12	General Business	
	No general business was discussed.	

The meeting closed at 12:10 PM.

Agenda Item 4: MAC Action Items

Meeting 2019_04_30

Shaded	Shaded action items are actions that have been completed since the last MAC meeting.
Unshaded	Unshaded action items are still being progressed.
Missing	Action items missing in sequence have been completed from previous meetings and subsequently removed from log.

Item	Action	Responsibility	Meeting Arising	Status
19/2017	The PUO to consult with AEMO and RCP Support on how to address the concerns raised by MAC members about the 2017/03 Amending Rules and develop a proposal for consideration at the next MAC meeting.	PUO/ AEMO/ RCP Support	2017_08_16	Open To be progressed as part of the WEM Reform Program. The MAC is asked to consider whether this action item should be closed and tracked through the MAC Market Rules Issues List (see Agenda Item 5)
33/2017	The PUO to review the current list of Protected Provisions in the Market Rules to determine if any of the provisions no longer need to be Protected Provisions.	PUO	2017_08_16	Open To be progressed as part of the WEM Reform Program. The MAC is asked to consider whether this action item should be

Item	Action	Responsibility	Meeting Arising	Status
				closed and tracked through the MAC Market Rules Issues List (see Agenda Item 5).
33/2018	AEMO to provide advice to the PUO and the MAC about how and whether Operating Instructions are used for the Balancing Portfolio.	AEMO	2018_11_20	Closed See Action 33/2018 in the minutes for MAC meeting 2019_02_05.
1/2019	RCP Support to amend the minutes of the 20 November 2018 meeting to reflect the agreed changes and publish them on the Panel's website as final	RCP Support	2019_02_05	Closed The final minutes have been posted on the website.
2/2019	AEMO and RCP Support to clarify the assumptions behind the IT cost estimates provided to RCP Support in 2018 and to the MAC on 5 February 2019 to support the recalculation of TES after the current 15 Business Day deadline; and to report back on the outcomes to the MAC.	RCP Support/ AEMO	2019_02_05	Open AEMO to provide verbal update.

Agenda Item 5: MAC Market Rules Issues List Update

Meeting 2019_04_30

The latest version of the Market Advisory Committee (**MAC**) Market Rules Issues List (**Issues List**) is available in Attachment 1 of this paper.

The MAC maintains the Issues List to track and progress issues that have been identified by Wholesale Electricity Market (**WEM**) stakeholders. A stakeholder may raise a new issue for discussion by the MAC at any time by emailing a request to the MAC Chair.

Updates to the Issues List are indicated in **red font**, while issues that have been closed since the last publication are shaded in grey.

Recommendation:

RCP Support recommends that the MAC:

- note the updates to the Issues List;
- indicate whether there are any new issues to be raised; and
- discuss the preliminary urgency rating for issue 53 (TES Recalculation).

In addition, the MAC is asked to consider:

- Three issues in Table 4 (Issues on Hold) are on hold pending publication of ERA Balancing Market Bidding Guidelines. The ERA published a 'Guideline to inform Balancing Market offers' on 22 February 2019,¹ so the MAC asked to consider next steps for issues 5, 6 and 41 in Table 4.
- Action Item 19/2017 (see Agenda Item 4) is for the Public Utilities Office (**PUO**) to consult with AEMO and RCP Support on how to address the concerns raised by MAC members about the 2017/03 Amending Rules and to develop a proposal for consideration by the MAC. The PUO has indicated that it will progress this matter as part of the WEM Reform Program. RCP Support recommends that the MAC consider whether this matter should be listed under Table 4 (Issues on Hold) pending the PUO's review of this issue.
- Action Item 33/2017 (see Agenda Item 4) is for the PUO to review the current list of Protected Provisions in the Market Rules to determine if any of the provisions no longer need to be Protected Provisions. The PUO has indicated that it will progress this matter as part of the WEM Reform Program. RCP Support recommends that the MAC consider whether this matter should be considered as part of issue 27 under Table 4 (Issues on Hold) pending the PUO's review of this issue.

¹ The Guideline to inform Balancing Market offers is available at https://www.erawa.com.au/cproot/20164/2/Guideline%20to%20inform%20Balancing%20Market%20offers_update%202019.pdf

Agenda Item 5 – Attachment 1 – MAC Market Rules Issues List

30 April 2019

Table 1 – Potential Rule Change Proposals

Id	Submitter/Date	Issue	Urgency and Status
31	Synergy November 2018	<p>LFAS Report</p> <p>Under clauses 7A.2.9(b) and 7A.2.9(c) of the Market Rules, Synergy is obligated to compile and send the LFAS weekly report to AEMO based on the LFAS data for each Trading Interval supplied to Synergy by System Management. Given that System Management is now part of AEMO, it seems reasonable to remove this obligation on Synergy to reduce administrative burden. This rule change supports Wholesale Market Objective (a).</p>	<p>Panel rating: Low, but OK to progress using the Fast Track Rule Change Process</p> <p>MAC ratings:</p> <p>Low: Alinta, Bluewaters</p> <p>Medium: Geoff Gaston, AEMO</p> <p>High: Peter Huxtable</p> <p>Status:</p> <p>This issue has not been progressed.</p>
45	AEMO May 2018	<p>Transfer of responsibility for setting document retention requirements</p> <p>AEMO suggested that responsibility for setting document retention requirements (clauses 10.1.1 and 10.1.2 of the Market Rules) should move from AEMO to the ERA. AEMO considers that it is not the best entity to hold this responsibility as it no longer maintains the broader market development and compliance functions of the IMO.</p>	<p>Panel rating: Low</p> <p>MAC ratings: Low</p> <p>Status:</p> <p>Waiting on the ERA to provide its position on the proposal, but this is a low priority issue for the ERA.</p>
46	AEMO May 2018	<p>Transfer of responsibility for setting confidentiality statuses</p> <p>AEMO suggested that responsibility for setting confidentiality statuses (clauses 10.2.1 and 10.2.3 of the Market Rules) should move from AEMO to the ERA. AEMO considers that it is not the best entity to hold</p>	<p>Panel rating: Low</p> <p>MAC ratings: Low</p> <p>Status:</p>

Table 1 – Potential Rule Change Proposals

Id	Submitter/Date	Issue	Urgency and Status
		this responsibility as it no longer maintains the broader market development and compliance functions of the IMO.	Waiting on the ERA to provide its position on the proposal, but this is a low priority issue for the ERA.
47	AEMO September 2018	<p>Market Procedure for conducting the Long Term PASA (clause 4.5.14)</p> <p>The scope of this procedure currently includes describing the process that the ERA must follow in conducting the five-yearly review of the Planning Criterion and demand forecasting process.</p> <p>AEMO considers that its Market Procedure should not cover the ERA’s review, and the ERA should be able to independently scope the review. As such, AEMO recommends removing this requirement from the head of power in clause 4.5.14 of the Market Rules.</p>	<p>Panel rating: Low</p> <p>MAC ratings: Low</p> <p>Status: This issue has not been progressed.</p>
<u>53</u>	<u>Alinta</u> <u>February 2019</u>	<p><u>TES Recalculation</u></p> <p><u>Alinta is seeking a rule change to allow the recalculation of TES after the current 15 Business Day deadline.</u></p>	<p>Panel rating: <u>TBD</u></p> <p>MAC ratings: <u>TBD</u></p> <p>Status: <u>This issue has not been progressed.</u></p>

Notes:

- The Potential Rule Change Proposals are well-defined issues that could be addressed through development of a Rule Change Proposal.
- If the MAC decides to add an issue to the Potential Rule Change Proposals list, then RCP Support will seek a preliminary urgency rating from MAC members/observers and from the Rule Change Panel (**Panel**) and will include this information in the list.
- Potential Rule Change Proposals will be closed after a Pre-Rule Change Proposal is presented to the MAC or a Rule Change Proposal is submitted to the Panel.

Table 2 – Broader Issues

Id	Submitter/Date	Issue	Urgency and Status
1	Shane Cremin November 2017	IRCR calculations and capacity allocation There is a need to look at how IRCR and the annual capacity requirement are calculated (i.e. not just the peak intervals in summer) along with recognising behind-the-meter solar plus storage. The incentive should be for retailers (or third-party providers) to reduce their dependence on grid supply during peak intervals, which will also better reflect the requirement for conventional 'reserve capacity' and reduce the cost per kWh to consumers of that conventional 'reserve capacity'.	To be considered in the preliminary review of the Reserve Capacity Mechanism.
2	Shane Cremin November 2017	Allocation of market costs – who bears Market Fees and who pays for grid support services with less grid generation and consumption?	To be considered in the preliminary reviews of behind-the-meter issues and the basis for allocation of Market Fees.
3	Shane Cremin November 2017	Penalties for outages.	To be considered in the preliminary review of the Reserve Capacity Mechanism.
4	Shane Cremin November 2017	Incentives for maintaining appropriate generation mix.	To be considered in the preliminary review of the Reserve Capacity Mechanism.
9	Community Electricity November 2017	Improvement of AEMO forecasts of System Load; real-time and day-ahead	To be considered in the preliminary review of forecast quality.

Table 2 – Broader Issues

Id	Submitter/Date	Issue	Urgency and Status
16	Bluewaters November 2017	<p>Behind the Meter (BTM) generation is treated as reduction in electricity demand rather than actual generation. Hence, the BTM generators are not paying their fair share of the network costs, Market Fees and ancillary services charges.</p> <p>Therefore, the non-BTM Market Participants are subsidizing the BTM generation in the WEM. Subsidy does not promote efficient economic outcome.</p> <p>Rapid growth of BTM generation will only exacerbate this inefficiency if not promptly addressed.</p> <p>Bluewaters recommends changes to the Market Rules to require BTM generators to pay their fair share of the network costs, Market Fees and ancillary services charges.</p> <p>This is an example of a regulatory arrangement becoming obsolete due to the emergence of new technologies. Regulatory design needs to keep up with changes in the industry landscape (including technological change) to ensure that the WEM continues to meet its objectives.</p> <p>If this BTM issue is not promptly addressed, there will be distortion in investment signals, which will lead to an inappropriate generation facility mix in the WEM, hence compromising power system security and in turn not promoting the Wholesale Market Objectives.</p>	To be considered in the preliminary reviews of behind-the-meter issues and the basis for allocation of Market Fees.
23	Bluewaters November 2017	<p>Allocation of Market Fees on a 50/50 basis between generators and retailers may be overly simplistic and not consider the impacts on economic efficiency.</p> <p>In particular, the costs associated with an electricity market reform program should be recovered from entities based on the benefit they</p>	To be considered in the preliminary review of the basis for allocation of Market Fees.

Table 2 – Broader Issues

Id	Submitter/Date	Issue	Urgency and Status
		<p>receive from the reform. This is expected to increase the visibility of (and therefore incentivise) prudence and accountability when it comes to deciding the need and scope of the reform.</p> <p>Recommendations: to review the Market Fees structure including the cost recovery mechanism for a reform program.</p> <p>The cost saving from improved economic efficiency can be passed on to the end consumers, hence promoting the Wholesale Market Objectives.</p>	
30	Synergy November 2017	<p>Reserve Capacity Mechanism</p> <p>Synergy would like to propose a review of Market Rules related to reserve capacity requirements and reserve capacity capability criteria to ensure alignment and consistency in determination of certain criteria. For instance:</p> <ul style="list-style-type: none"> • assessment of reserve capacity requirement criteria, reserve capacity capability and reserve capacity obligations; • IRCR assessment; • Relevant Demand determination; • determination of NTDL status; • Relevant Level determination; and • assessment of thermal generation capacity. <p>The review will support Wholesale Market Objectives (a) and (d).</p>	To be considered in the preliminary review of the Reserve Capacity Mechanism.

Table 2 – Broader Issues			
Id	Submitter/Date	Issue	Urgency and Status
35	ERM Power November 2017	<p>BTM generation and apportionment of Market Fees, ancillary services, etc.</p> <p>The amount of solar PV generation on the system is increasing every year, to the point where solar PV generation is the single biggest unit of generation on the SWIS. This category of generation has a significant impact on the system and we have seen this in terms of the day time trough that is observed on the SWIS when the sun is shining. The issue is that generators that are on are moving around to meet the needs of this generation facility but this generation facility, which could impact system stability, does not pay its fair share of the costs of maintaining the system in a stable manner. That is, they are not the generators that receive its fair apportionment of Market Fees and pay any ancillary service costs but yet they have absolute freedom to generate into the SWIS when the fuel source is available. There needs to be equity in this equation.</p>	To be considered in the preliminary reviews of behind-the-meter issues and the basis for allocation of Market Fees.
39	Alinta Energy November 2017	<p>Commissioning Test Process</p> <p>The commissioning process within the Market Rules and PSOP works well for known events (i.e. the advance timings of tests). However, the Market Rules and PSOP do not work for close to real time events. There is limited flexibility in the Market Rules and PSOP to deal with the practical and operational realities of commissioning facilities.</p> <p>The Market Rules and PSOP require System Management to approve a Commissioning Test Plan or a revised Commissioning Test Plan by 8:00 AM on the Scheduling Day on which the Commissioning Test Plan would apply.</p>	To be considered in the preliminary review of the Commissioning Tests.

Table 2 – Broader Issues

Id	Submitter/Date	Issue	Urgency and Status
		<p>If a Market Participant cannot conform to its most recently approved Commissioning Test Plan, the Market Participant must notify System Management; and either:</p> <ul style="list-style-type: none"> • withdraw the Commissioning Test Plan; or • if the conditions relate to the ability of the generating Facility to conform to a Commissioning Test Schedule, provide a revised Commissioning Test Plan to System Management as soon as practicable before 8:00 AM on the Scheduling Day prior to the commencement of the Trading Day to which the revised Commissioning Test Plan relates. <p>Specific Issues:</p> <p>This restriction to prior to 8:00 AM on the Scheduling Day means that managing changes to the day of the plan are difficult. Sometimes a participant is unaware at that time that it may not be able to conform to a plan. Amendments to Commissioning Tests and schedules need to be able to be dealt with closer to real time.</p> <p>Examples for improvements are:</p> <ul style="list-style-type: none"> • allowing participants to manage delays to the start of an approved plan; and • allowing participants to repeat tests and push the remainder of the Commissioning Test Plan out. <p>Greater certainty is needed for on the day changes (i.e. there is uncertainty as to what movements/timing changes acceptable within the “Test Window” i.e. on the day).</p>	

Wholesale Market Objective Assessment:

A review of the Commissioning Test process, with a view to allowing greater flexibility to allow for the technical realities of commissioning, will better achieve:

- Wholesale Market Objective (a):
 - Allowing generators greater flexibility in undertaking commissioning activities will allow the required tests to be conducted in a more efficient and timely manner, which should result in the earlier availability of approved generating facilities. This contributes to the efficient, safe and reliable production of energy in the SWIS.
 - Productive efficiency requires that demand be served by the least-cost sources of supply, and that there be incentives for producers to achieve least-cost supply through a better management of cost drivers. Allowing for a more efficient management of commissioning processes, timeframes and costs in turn promotes the economically efficient production and supply of electricity.
- Wholesale Market Objective (b): improvements to the efficiency of the Commissioning Test process may assist in the facilitation of efficient entry of new competitors.
- Wholesale Market Objective (d):
 - Balancing appropriate flexibility for generators with appropriate oversight and control for System Management should ensure that the complex task of commissioning is not subject to unnecessary red tape, adding to the cost of projects. This contributes to the achievement of Wholesale Market Objective (d) relating to the long term cost of electricity supply.

Table 2 – Broader Issues			
Id	Submitter/Date	Issue	Urgency and Status
		<ul style="list-style-type: none"> ○ Impacts on economic efficiency and efficient entry of new competitors (as outlined above) will potentially lead to the minimisation of the long-term cost of electricity supplied. 	

Notes:

- Some issues require further discussion/review before specific Rule Change Proposals can be developed. For these issues, the MAC will:
 - group the issues together where appropriate;
 - determine the order of priority for the grouped Broader Issues;
 - conduct preliminary reviews to scope out the Broader Issues; and
 - refer the Broader Issues to the appropriate body for consideration/development.
- RCP Support will aim to schedule preliminary reviews at the rate of one per MAC meeting, unless competing priorities prevent this.
- Broader Issues will be closed (or moved onto another sub-list) following the completion of the relevant preliminary review and any agreed follow-up discussions on the issue.
- The current list of preliminary reviews is shown in Table 3.

Table 3 – Preliminary Reviews

Review	Status
(1) Review of roles in the market	<p>Issues: 11 and 12.</p> <p>Status: Review deferred until Issues 11 and 12 are reopened following completion of the WEM reform program.</p>
(2) Behind-the-meter issues	<p>Issues: 2, 16, 35.</p> <p>Status: Preliminary discussion is not yet scheduled.</p>
(3) Forecast quality	<p>Issues: 9.</p> <p>Status: Preliminary discussion is not yet scheduled.</p>
(4) Commissioning Tests	<p>Issues: 39.</p> <p>Status: Preliminary discussion is not yet scheduled. However, on 22 May 2018 AEMO held a workshop on Commissioning Test issues in connection with its proposed changes to the Power System Operation Procedure: Commissioning and Testing.</p>
(5) The basis of allocation of Market Fees	<p>Issues: 2, 16, 23 and 35.</p> <p>Status: Preliminary discussion is not yet scheduled.</p>
(6) The Reserve Capacity Mechanism (excluding the pricing mechanism)	<p>Issues: 1, 3, 4, and 30.</p> <p>Status: Preliminary discussion is not yet scheduled.</p>

Table 4 – Issues on Hold			
Id	Submitter/Date	Issue	Urgency and Status
5	Community Electricity November 2017	Improved definition of SRMC.	On hold pending development of ERA Balancing Market Bidding Guidelines. The ERA published a “Guideline to inform Balancing Market offers” on 22 February 2019. The MAC is asked to consider whether this guideline resolves issue 5, and if not, what else needs to be done and what are the next steps?
6	Community Electricity November 2017	Improved definition of Market Power.	On hold pending development of ERA Balancing Market Bidding Guidelines. The ERA published a “Guideline to inform Balancing Market offers” on 22 February 2019. The MAC is asked to consider whether this guideline resolves issue 6, and if not, what else needs to be done and what are the next steps?
7	Community Electricity November 2017	Improved definition of the quantity of LFAS (a) required and (b) dispatched.	On hold pending the outcome of the WEM reform program, with potential input from work on RC_2017_02: Implementation of 30-Minute Balancing Gate Closure.
10	AEMO November 2017	Review of participant and facility classes to address current and looming issues, such as: <ul style="list-style-type: none"> incorporation of storage facilities; distinction between non-scheduled and semi-scheduled generating units; 	On hold pending the outcome of the Minister’s WEM Reform program. Treatment of storage facilities was considered under the preliminary review of the treatment of storage facilities in the market.

Table 4 – Issues on Hold

Id	Submitter/Date	Issue	Urgency and Status
		<ul style="list-style-type: none"> • reconsideration of potential for Dispatchable Loads in the future (which were proposed for removal in RC_2014_06); • whether to retain Interruptible Loads or to move to an aggregated facility approach (like Demand Side Programmes); and • whether to retain Intermittent Loads as a registration construct or to convert to a settlement construct. <p>Would support new entry, competition and market efficiency; particularly supporting the achievement of Wholesale Market Objectives (a) and (b).</p>	
11	AEMO November 2017	<p>Whole-of-system planning oversight:</p> <p>As explained in AEMO’s submission to the ERA’s review of the WEM, AEMO considers the necessity of the production of an annual, independent Integrated Grid Plan to identify emerging issues and opportunities for investment at different locations in the network to support power system security and reliability. This role would support AEMO’s responsibility for the maintenance of power system security and will be increasingly important as network congestion increases and the characteristics of the power system evolve in the course of transition to a predominantly non-synchronous future grid with distributed energy resources, highlighting new requirements (e.g. planning for credible contingency events, inertia, and fast frequency response).</p> <p>This function would support the achievement of power system security and reliability, in line with Wholesale Market Objective (a).</p>	<p>This issue was initially flagged for consideration as part of the preliminary review of roles in the market.</p> <p>However, the PUO has since advised that the issue will be covered as part of the WEM reform program, so the issue has been put on hold pending completion of the WEM reform program.</p>
12	AEMO	Review of institutional responsibilities in the Market Rules.	Potential changes to responsibilities for setting document retention requirements and

Table 4 – Issues on Hold

Id	Submitter/Date	Issue	Urgency and Status
	November 2017	Following the major changes to institutional arrangements made by the Electricity Market Review, a secondary review is required to ensure that tasks remain with the right organisations, e.g. responsibility for setting confidentiality status (clause 10.2.1), document retention (clause 10.1.1), updating the contents of the market surveillance data catalogue (clause 2.16.2), content of the market procedure under clause 4.5.14, order of precedence of market documents (clause 1.5.2). This will promote efficiency in market administration, supporting Wholesale Market Objectives (a) and (d).	confidentiality statuses have been listed as Potential Rule Change Proposals (issues 45 and 46). Potential changes to clause 4.5.14 have also been listed as a Potential Rule Change Proposal (issue 47). The PUO has advised that the remaining issues will be covered as part of the WEM reform program, so the remaining issues have been put on hold pending completion of the WEM reform program.
14/36	Bluewaters and ERM Power November 2017	<p>Capacity Refund Arrangements:</p> <p>The current capacity refund arrangement is overly punitive as Market Participants face excessive capacity refund exposure. This refund exposure is well more than what is necessary to incentivise the Market Participants to meet their obligations for making capacity available. Practical impacts of such excessive refund exposure include:</p> <ul style="list-style-type: none"> • compromising the business viability of some capacity providers - the resulting business interruption can compromise reliability and security of the power system in the SWIS; and • excessive insurance premiums and cost for meeting prudential support requirements. <p>Bluewaters recommended imposing seasonal, monthly and/or daily caps on the capacity refund. Bluewaters considered that reviewing capacity refund arrangements and reducing the excessive refund</p>	On 9 May 2018 the MAC agreed to place this issue on hold for 12 months (until June 2019) to allow time for historical data on dynamic refund rates to accumulate.

Table 4 – Issues on Hold

Id	Submitter/Date	Issue	Urgency and Status
		<p>exposure is likely to promote the Wholesale Market Objectives by minimising:</p> <ul style="list-style-type: none"> unnecessary business interruption to capacity providers and in turn minimising disruption to supply availability; which is expected to promote power system reliability and security; and unnecessary excessive insurance premium and prudential support costs, the saving of which can be passed on to consumers. 	
15/34	Bluewaters and ERM Power November 2017	<p>An interpretation of clause 3.18.7 of the Market Rules is that System Management will not approve a Planned Outage for a generator unless it was available at the time the relevant Outage Plan was submitted. This gives rise to the following issues:</p> <ul style="list-style-type: none"> Operational inefficiency for the generators – it is not uncommon for minor problems to be discovered during a Planned Outage, and addressing these problems may require the Planned Outage period to be marginally extended (by submitting an additional Outage Plan). However, System Management has taken an interpretation of clause 3.18.7 that it is not allowed to approve the Planned Outage period extension because the relevant generator was not available at the time the extension application was submitted. To meet this rules requirement, the generator will need to bring the unit online, apply for a Planned Outage while the unit is online, and subsequently take the unit off-line again only to address the minor problems. Such operational inefficiency could have been avoided if System Management can approve such Planned Outage extension (as long as there is sufficient reserve margin available in the power system during the extended Planned Outage period). 	On hold pending a final decision on RC_2013_15: Outage Planning Phase 2 – Outage Process Refinements

Table 4 – Issues on Hold

Id	Submitter/Date	Issue	Urgency and Status
		<ul style="list-style-type: none"> Driving perverse incentives in the WEM and compromising market efficiency – to get around the issue discussed above, generators are likely to overestimate their Planned Outage period requirements in their outage applications. This results in higher than necessary projected plant unavailability, which does not promote accurate price signals for guiding trading decisions. This misinformation is expected to lead to an inefficient outcome which in turn does not promote the Wholesale Market Objectives. <p>Bluewaters recommendation: clarify in the Market Rules so that System Management can approve a Planned Outage extension application.</p>	
17	Bluewaters November 2017	<p>Under clause 3.21.7 of the Market Rules, a Market Participant is not allowed to retrospectively log a Forced Outage after the 15-day deadline; even if the Market Participant is subsequently found to be in breach of the Market Rules for not logging the Forced Outage on time. This can result in under reporting of Forced Outages, and as a consequence, use of incorrect information used in WEM settlements.</p> <p>Bluewaters recommend a rule change to enable Market Participants to retrospectively log a Forced Outage after the 15 day deadline. If a Market Participant is found to be in breach of the Market Rules by not logging the Forced Outage by the deadline, it should be required to log the outage.</p> <p>Accurately reporting outages will enable the WEM to function as intended and will help meet the Wholesale Market Objectives.</p>	On hold pending a final decision on RC_2014_03: Administrative Improvements to the Outage Process.

Table 4 – Issues on Hold			
Id	Submitter/Date	Issue	Urgency and Status
18	Bluewaters November 2017	<p>The Spinning Reserve procurement process does not allow Market Participants to respond to the draft margin values determination by altering its Spinning Reserve offer.</p> <p>Bluewaters recommended amending the Market Rules to allow Market Participants to respond to the draft margin values determination by altering its Spinning Reserve offer.</p> <p>Allowing a Market Participant to respond to the draft margin values determination, can serve as a price signal to enable a price discovery process for Spinning Reserve capacity. This is expected to lead to a more efficient economic outcome and in turn promote the Wholesale Market Objectives.</p>	On hold pending the outcomes of the ancillary services review being undertaken as part of the WEM reform program.
19	Bluewaters November 2017	<p>The Spinning Reserve margin values evaluation process is deficient for the following reasons:</p> <ul style="list-style-type: none"> • shortcomings in the process for reviewing assumptions; • inability to shape load profile; • lack of transparency: <ul style="list-style-type: none"> (a) modelling was a “black box”; (b) confidential information limits stakeholders’ ability to query the results; and • lack to retrospective evaluation of spinning reserve margin values. <p>As a result, the margin values have been volatile, potentially inaccurate and not verifiable.</p>	<p>On hold pending the outcome of the WEM reform program.</p> <p>Also, AEMO and the ERA to consider whether any options exist to improve transparency of the current margin values process.</p>

Table 4 – Issues on Hold

Id	Submitter/Date	Issue	Urgency and Status
		<p>Recommendation: conduct a review on the margin values evaluation process and propose rule changes to address any identified deficiencies.</p> <p>Addressing the deficiencies in the margin values evaluation process can promote the Wholesale Market Objectives by enhancing economic efficiency in the WEM. This can be achieved through:</p> <ul style="list-style-type: none"> • promoting transparency – better informed Market Participants would be able to better respond to Spinning Reserve requirement in the WEM; and • allowing a better informed margin values determination process, which is likely to give a more accurately priced margin values to promote an efficient economic outcome. 	
22	Bluewaters November 2017	<p>Prudential arrangement design issue: clause 2.37.2 of the Market Rules enables AEMO to review and revise a Market Participant's Credit Limit at any time. It is expected that AEMO will review and increase Credit Limit of a Market Participant if AEMO considers its credit exposure has increased (for example, due to an extended plant outage event).</p> <p>In response to the increase in its credit exposure, clause 2.40.1 of the Market Rules and section 5.2 of the Prudential Procedure allow the Market Participant to make a voluntary prepayment to reduce its Outstanding Amount to a level below its Trading Limit (87% of the Credit Limit).</p> <p>Under the current Market Rules and Prudential Procedure, AEMO can increase the Market Participant's Credit Limit (hence increasing its</p>	On hold pending AEMO's proposed review of its process for Credit Limit determination.

Table 4 – Issues on Hold

Id	Submitter/Date	Issue	Urgency and Status
		<p>prudential support requirement) despite that a prepayment has already been paid (it is understood that this is AEMO's current practice).</p> <p>The prepayment would have already served as an effective means to reduce the Market Participant's credit exposure to an acceptable level. Increasing the Credit Limit in addition to this prepayment would be an unnecessary duplication of prudential requirement in the WEM.</p> <p>This unnecessary duplication is likely to give rise to higher-than-necessary prudential cost burden in the WEM; which creates economic inefficiency that is ultimately passed on the end consumers.</p> <p>Recommendation: amend the Market Rules and/or procedures to eliminate the duplication of prudential burden on Market Participants.</p> <p>The resulting saving from eliminating this unnecessary prudential burden can be passed on to end consumers. This promotes economic efficiency and therefore the Wholesale Market Objectives.</p>	
27	Kleenheat November 2017	Review what should constitute a Protected Provision of the Market Rules, to provide greater clarity over the role of the Minister for Energy.	On hold pending the outcome of a PUO review of the current Protected Provisions in the Market Rules.
28	Kleenheat November 2017	Appropriate rule changes to allow for battery storage. Consultation to decide how the batteries will be treated and classified as generators or not, whether batteries can apply for Capacity Credits and the availability status when the batteries are charging.	On hold pending the outcomes of the WEM reform program.
33	ERM Power November 2017	<p>Logging of Forced Outages</p> <p>The market systems do not currently allow Forced Outages to be amended once entered. This can have the distortionary effect of</p>	On hold pending a final decision on RC_2014_03: Administrative Improvements to the Outage Process.

Table 4 – Issues on Hold

Id	Submitter/Date	Issue	Urgency and Status
		<p>participants not logging an Outage until it has absolute certainty that the Forced Outage is correct, hence participants could take up to 15 days to submit its Forced Outages.</p> <p>If a participant could cancel or amend its Forced Outage information, it will likely provide more accurate and transparent signals to the market of what capacity is really available to the system. This should also assist System Management in generation planning for the system.</p>	
41	IMO November 2017	<p>On 1 September 2017, the Electricity Review Board (Board) published its decision and its reasons for decision regarding the IMO's Application No. 1 of 2016 against Vinalco Energy Pty Ltd (Vinalco) (http://www.edawa.com.au/reviews/12016).</p> <p>Even though the Board found that Vinalco breached clause 7A.2.17 of the Market Rules during the relevant periods and ordered Vinalco to pay two nominal penalties, the Board was sympathetic to the argument that 'constrained-on' dispatch through the Balancing Market was not the most appropriate mechanism in Vinalco's circumstances.</p> <p>The IMO considers that further work is required to consider what changes are required to the Market Rules to mitigate the risk of a similar situation arising again, and what the next steps may be to progress those changes.</p>	<p>On hold pending development of ERA Balancing Market Bidding Guidelines.</p> <p><u>The ERA published a "Guideline to inform Balancing Market offers" on 22 February 2019. The MAC, is asked to consider whether this guideline resolves issue 41, and if not, what else needs to be done and what are the next steps?</u></p>
42	ERA November 2017	<p>Ancillary Services approvals process</p> <p>Clause 3.11.6 of the Market Rules requires System Management to submit the Ancillary Services Requirements in a report to the ERA for audit and approval by 1 June each year, and System Management must publish the report by 1 July each year. The ERA conducted this</p>	<p>On hold pending the outcome of the WEM reform program.</p>

Table 4 – Issues on Hold

Id	Submitter/Date	Issue	Urgency and Status
		<p>process for the first time in 2016/17. In carrying out the process it became apparent that:</p> <ul style="list-style-type: none"> • there is no guidance in the rules on what the ERA’s audit should cover, or what factors the ERA should consider in making its determination on the requirements; • there are no documented Market Procedures setting out the methodology for System Management to determine the ancillary service requirements (the preferable approach would be for the methodologies to be documented in a Market Procedure, and for the ERA to audit whether System Management has followed the procedure); • the timeframe for the ERA’s audit and approval process (less than 1 month) limits the scope of what it can achieve in its audit; • the levels determined by System Management are a function of the Ancillary Service standards, but the standards themselves are not subject to approval in this process; and • the value of the audit and approval process is limited because System Management has discretion in real time to vary the levels from the set requirements. <p>The question is whether the market thinks this approvals process is necessary/will continue to be necessary (particularly in light of co-optimised energy and ancillary services). If so, then the issues above will need to be addressed, to reduce administrative inefficiencies and, if more rigour is added to the process, provide economic benefits (Wholesale Market Objectives (a) and (d)).</p>	

Table 4 – Issues on Hold			
Id	Submitter/Date	Issue	Urgency and Status
49	MAC November 2018	Should the method used to calculate constrained off compensation be amended to better reflect the actual costs incurred by Market Generators?	The MAC agreed to include this issue in the Issues List and place it on hold until a decision is made on RC_2018_07, and if the Rule Change Proposal is approved, the changes have been in place for 12 months.
50	MAC November 2018	Should the Minimum STEM Price (currently -\$1,000/MWh) be increased to reduce the potential magnitude of constrained off compensation (e.g. by restoring the former practice of setting the Minimum STEM Price to the Maximum STEM Price multiplied by -1):	The MAC agreed to include this issue in the Issues List and place it on hold pending the outcomes of the ERA's next review of the methodology for setting the Energy Price Limits under clause 2.26.3 of the Market Rules.
51	MAC November 2018	There is a need to provide Market Customers with timely advance notice of their upcoming constraint payment liabilities.	The MAC agreed to place this issue on hold pending implementation of AEMO's proposed changes to the Outstanding Amount calculation in 2019.
<u>52</u>	<u>MAC</u> <u>February 2019</u>	<u>How should potential future scenarios be managed where multiple generating units that are connected to the same line constitute the largest credible contingency, without imposing excessive constraint payment costs on Market Customers?</u>	<u>The MAC agreed to place this issue on hold pending outcomes of the WEM Reform Program.</u>

Notes:

- These are issues that the MAC will consider following some identified event. Issues on Hold will be reviewed by the MAC once the identified event has occurred, and then closed or moved to another sub-list.

MARKET ADVISORY COMMITTEE MEETING, 30 APRIL 2019

FOR NOTING

SUBJECT: UPDATE ON AEMO'S MARKET PROCEDURES

AGENDA ITEM: 7

1. PURPOSE

Provide a status update on the activities of the AEMO Procedure Change Working Group and AEMO Procedure Change Proposals.

2. AEMO PROCEDURE CHANGE WORKING GROUP (APCWG)

	Recent meetings		Next meeting
Date	21 Feb 2019	15 Apr 2019	2 May 2019
Market Procedures for discussion	<ul style="list-style-type: none"> Market Procedure: Individual Reserve Capacity Requirements Market Procedure: Prudential Requirements Market Procedure: Capacity Credit Allocation 	<ul style="list-style-type: none"> PSOP: Power System Security PSOP: Ancillary Services 	<ul style="list-style-type: none"> PSOP: Dispatch Market Procedures resulting from RC_2014_06 (Removal of Resource Plans and Dispatchable Loads) <ul style="list-style-type: none"> Balancing Market Forecast Balancing Facility Requirements Determining Loss Factors Determination of DSM Dispatch Payment Tranches & Adjustments Settlement Data and IT Interface Requirements Certification of Reserve Capacity

3. AEMO PROCEDURE CHANGE PROPOSALS

The status of AEMO Procedure Change Proposals is described below, current as at 17 April 2019. Changes since the previous MAC meeting are in **red text**. A procedure change is removed from this report after its commencement has been reported or a decision has been taken not to proceed with a potential Procedure Change Proposal.

ID	Summary of changes	Status	Next steps	Date
AEPC_2018_01: Monitoring and Reporting Protocol	The new Monitoring and Reporting Protocol details how AEMO implements its obligations to support the ERA's monitoring of compliance with the Market Rules.	Updated consultation closed 10 Jan 2019. Two further submissions received	ERA review and approval	May 2019
AEPC_2018_03: PSOP: Communications and Control Systems	The proposed amendments will update the procedure in line with current AEMO standards and add content previously placed in the IMS Market Procedure.	Submissions closed 21 May 2018. One submission received.	Publish further proposed amendments for consultation	May 2019
AEPC_2018_05: IMS Interface	The proposed amendments are consequential, arising from the amendment to the PSOP: Communications and Control Systems	Submissions closed 21 May 2018. One submission received.	Prepare Procedure Change Report	May 2019
AEPC_2018_06: PSOP: Commissioning Tests	The proposed amendments seek to revise the Procedure in line with current standards and ensure the Procedure complies with obligations.	Submissions closed 25 Mar 2019. No submissions received.	Publish Procedure Change Report	Jun 2019
AEPC_2019_01: PSOP: Short Term PASA	The proposed amendments seek to revise the Procedure in line with current standards and ensure the Procedure complies with obligations.	Submissions closed 25 Mar 2019. One submission received.	Publish Procedure Change Report	Jun 2019
AEPC_2019_02: PSOP: Medium Term PASA	The proposed amendments seek to revise the Procedure in line with current standards and ensure the Procedure complies with obligations.	Submissions closed 25 Mar 2019. One submission received.	Publish Procedure Change Report	Jun 2019

ID	Summary of changes	Status	Next steps	Date
<p>AEPC_2019_03:</p> <p>Market Procedure: Capacity Credit Allocation</p> <p>Market Procedure: Individual Reserve Capacity Requirements</p> <p>Market Procedure: Prudential Requirements</p>	<p>Amendments arising from Rule Change RC_2017_06 (Reduction of prudential exposure in the Reserve Capacity Mechanism) are proposed</p>	<p>Submissions closed 15 Apr 2019.</p> <p>No submissions received.</p>	<p>Publish Procedure Change Report</p>	<p>30 Apr 2019</p>
<p>AEPC_2019_04:</p> <p>PSOP: Dispatch</p>	<p>The proposed amendments include editorial clarifications and changes required by upcoming rule changes, audit items or operational matters.</p>	<p>Preparing draft amendments</p>	<p>Consideration by APCWG 2 May 2019</p>	<p>2 May 2019</p>
<p>AEPC_2019_06:</p> <p>Market Procedure: Balancing Market Forecast</p> <p>Market Procedure: Balancing Facility Requirements</p> <p>Market Procedure: Determining Loss Factors</p> <p>Market Procedure: Determination of DSM Dispatch Payment Tranches & Adjustments</p> <p>Market Procedure: Settlement</p> <p>Market Procedure: Data and IT Interface Requirements</p> <p>Market Procedure: Certification of Reserve Capacity</p>	<p>The proposed amendments predominantly arise from Rule Change RC_2014_06 (Removal of Resource Plans and Dispatchable Loads)</p>	<p>Preparing draft amendments</p>	<p>Consideration by APCWG 2 May 2019</p>	<p>2 May 2019</p>
<p>AEPC_2019_07:</p> <p>PSOP: Ancillary Services</p>	<p>The proposed amendments seek to revise the Procedure in line with current standards and ensure the Procedure complies with obligations.</p>	<p>Considered by APCWG 15 Apr 2019</p>	<p>Publish Procedure Change Proposal</p>	<p>May 2019</p>

ID	Summary of changes	Status	Next steps	Date
AEPC_2019_08: PSOP: Power System Security	The proposed amendments seek to revise the Procedure in line with current standards and ensure the Procedure complies with obligations.	Considered by APCWG 15 Apr 2019	Publish Procedure Change Proposal	May 2019

Agenda Item 8(a): Overview of Rule Change Proposals (as at 23 April 2019)

Meeting 2019_04_30

- Changes to the report provided at the previous MAC meeting are shown in **red font**.
- The next steps and the timing for the next steps are provided for Rule Change Proposals that are currently being actively progressed by the Rule Change Panel or the Minister.

Rule Change Proposals Commenced since the last MAC Meeting

Reference	Submitted	Proponent	Title	Commenced
None				

Approved Rule Change Proposals Awaiting Commencement

Reference	Submitted	Proponent	Title	Commencement
RC_2017_06	17/07/2017	AEMO	Reduction of the prudential exposure in the Reserve Capacity Mechanism	01/06/2019
RC_2014_06	28/01/2015	IMO	Removal of Resource Plans and Dispatchable Loads	01/07/2019
RC_2014_07	22/12/2014	IMO	Omnibus Rule Change	01/07/2019 ¹

¹ All Amending Rules for RC_2014_07 commenced on 11/01/2019, except the changes to clause 2.34.14, which will commence on 01/07/2019 immediately after commencement of RC_2014_06.

Rule Change Proposals Rejected since the last MAC Meeting

Reference	Submitted	Proponent	Title	Rejected
None				

Rule Change Proposals Awaiting Approval by the Minister

Reference	Submitted	Proponent	Title	Approval Due Date
None				

Formally Submitted Rule Change Proposals

Reference	Submitted	Proponent	Title	Urgency	Next Step	Date
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Fast Track Rule Change Proposals with Consultation Period Closed

None						
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Fast Track Rule Change Proposals with Consultation Period Open

None						
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Standard Rule Change Proposals with Second Submission Period Closed

RC_2018_06	26/11/2018	PUO	Full Runway Allocation of Spinning Reserve Costs	Medium	Publication of Final Rule Change Report	30/04/2019
RC_2018_07	14/12/2018	PUO	Removal of constrained off compensation for Outages of network equipment	High	Publication of Final Rule Change Report	30/04/2019
RC_2015_01	03/03/2015	IMO	Removal of Market Operation Market Procedures	Low	Publication of Final Rule Change Report	15/05/2019

Reference	Submitted	Proponent	Title	Urgency	Next Step	Date
Standard Rule Change Proposals with Second Submission Period Open						
RC_2015_03	27/03/2015	IMO	Formalisation of the Process for Maintenance Applications	Low	Closure of second submission period	01/05/2019
RC_2018_05	27/09/2018	ERA	ERA access to market information and SRMC investigation process	Medium	Closure of second submission period	30/05/2019
Standard Rule Change Proposals with First Submission Period Closed						
RC_2013_15	24/12/2013	IMO	Outage Planning Phase 2 – Outage Process Refinements	Medium	Publication of Draft Rule Change Report	28/06/2019
RC_2014_03	27/01/2014	IMO	Administrative Improvements to the Outage Process	High	Publication of call for further submissions	June/July 2019
RC_2014_05	02/12/2014	IMO	Reduced Frequency of the Review of the Energy Price Limits and the Maximum Reserve Capacity Price	Medium	Publication of Draft Rule Change Report	TBD
RC_2014_09	13/03/2015	IMO	Managing Market Information	Low	Publication of Draft Rule Change Report	01/07/2019
RC_2017_02	04/04/2017	Perth Energy	Implementation of 30-Minute Balancing Gate Closure	Medium	Publication of Draft Rule Change Report ²	01/07/2019
RC_2018_03	01/03/2018	Collgar Wind Farm	Capacity Credit Allocation Methodology for Intermittent Generators	Medium	Publication of Draft Rule Change Report	31/12/2019

² The current deadline for publication of the Draft Rule Change Report for RC_2017_02 is 01/07/2019. AEMO has provided RCP Support with technical reasons for why it cannot implement a 30-minute gate closure, and has indicated that it can implement a 90-minute gate closure, but has not provided technical reasons for why it cannot implement a 60-minute gate closure. Therefore, RCP Support intends to schedule a workshop in May/June 2019 to discuss how to progress this proposal. Timing and content for the workshop will be discussed at the MAC meeting on 30/04/2019.

Reference	Submitted	Proponent	Title	Urgency	Next Step	Date
Standard Rule Change Proposals with the First Submission Period Open						
None						

Pre-Rule Change Proposals

Reference	Proponent	Description	Next Step	Submitted
TBD	ERA	Relevant Level Methodology	Submit Rule Change Proposal	TBD
TBD	AEMO	Adjusting Non-STEM Settlements using latest available data	Submit Rule Change Proposal	TBD

Agenda Item 9: Conflict of Interest Considerations

Meeting 2019_04_30

1. Background

Perth Energy made a supplemental submission to the Rule Change Panel (**Panel**) on 25 January 2019 regarding Rule Change Proposal RC_2018_05: ERA access to market information and SRMC investigation process.¹ In this supplemental submission, Perth Energy raised several allegations of conflict of interest between RCP Support and the staff of the Economic Regulation Authority (**ERA**).

The Panel responded to Perth Energy's supplemental submission in the Draft Rule Change Report for RC_2018_05, which was published on 18 April 2019. The Panel asked RCP Support to discuss the issue of the perceived conflict of interests between RCP Support and ERA staff at the next available Market Advisory Committee (**MAC**) meeting.

2. Recommendation

It is recommended that the MAC:

- review the arrangements that have been put in place to manage potential conflicts of interest where the Panel processes Rule Change Proposals (**Proposals**) submitted by the ERA; and
- advise whether they have any specific concerns with the arrangements.

3. The Panel's Corporate Arrangements

In 2016, the State Government:

- reassigned responsibility for market operations from the Independent Market Operator (**IMO**) to AEMO;
- reassigned responsibility for compliance from the IMO to the ERA; and
- created the Panel and assigned it responsibility to approve changes to the Wholesale Electricity Market Rules (**Market Rules**).

One of the reasons for restructuring the market arrangements was to address perceived conflicts of interest from having the market operations, compliance and rule change functions within a single entity – the IMO.

However, in deciding how to separate these functions, the State Government also considered a number of other objectives, including cost and practicality. Therefore, while the State Government has established the Panel as an independent rule-making body, it also established arrangements for the ERA to provide support to the Panel rather than have the Panel establish and maintain its own staff and facilities.

¹ Perth Energy's supplemental submission to RC_2018_05 is available on the Panel's website.

The Panel was established via the *Energy Industry (Rule Change Panel) Regulations 2016 (Panel Regulations)*.² The Panel Regulations also establish an Executive Officer to support the Panel, and specifies that the ERA is to provide support to the Executive Officer (staff and other services, facilities and assistance).³

The corporate structure of the Panel and the ERA are shown in Figure 1.

Figure 1 – Corporate Structure of the Panel and the ERA

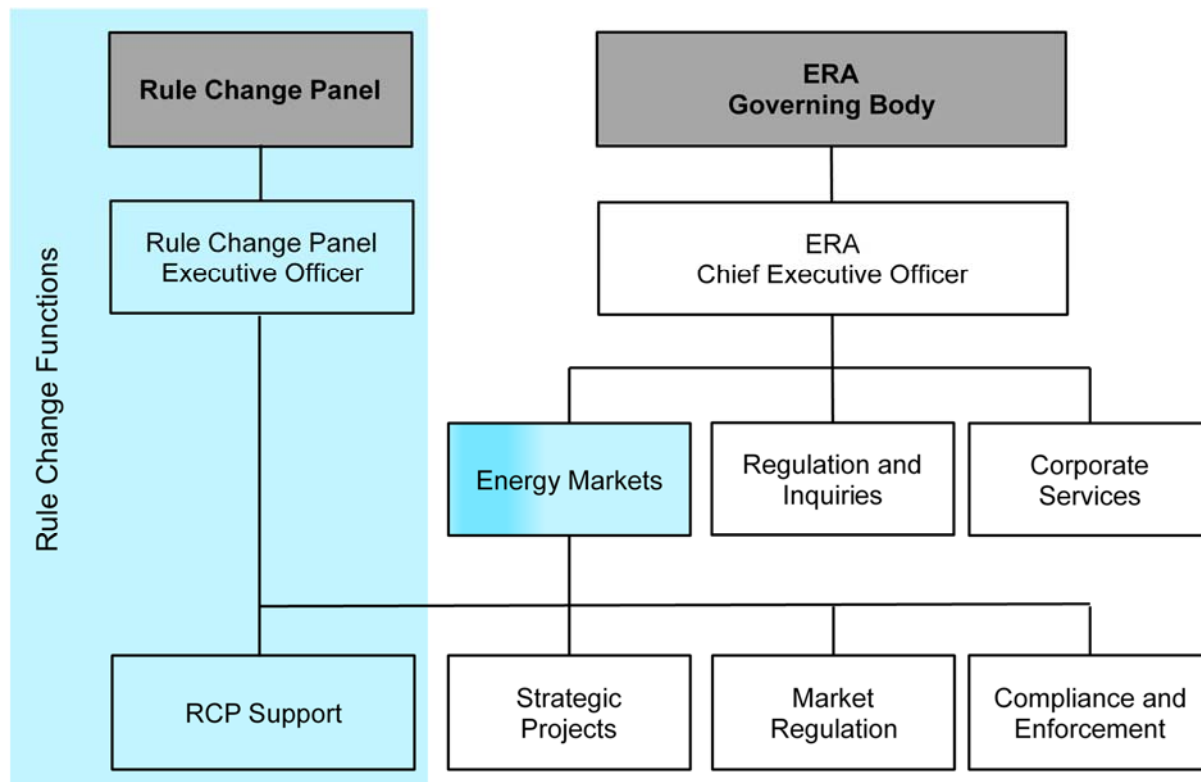


Figure 1 shows that:

- the Executive Officer manages processes for the Panel but has no role in the processes for the ERA;
- the CEO of the ERA manages processes for the ERA, but has no role in the processes of the Panel;
- RCP Support staff report directly to the Executive Officer
- RCP Support staff are considered part of the Energy Markets division within the ERA, but treated separately to maintain independence of the Panel; and
- the Executive Officer can get access to other ERA staff from the Energy Markets branch if/when needed.

4. ERA-Initiated Rule Change Proposals

The Market Rules allow any person to make a Proposal, including the ERA,⁴ and in some cases require the ERA to develop Proposals.⁵

² See section 4 of the Panel Regulations.

³ See section 23 of the Panel Regulations.

⁴ See clause 2.5.1 of the Market Rules.

⁵ See clauses 4.5.19(a) and 4.16.10 of the Market Rules.

RCP Support staff provides support to the proponent of any Proposal during the pre-rule change process, including if the proponent is the ERA. RCP Support does not provide any further support to proponents once a Proposal is formally submitted to the Panel.

5. Establishment of the RCP Support Arrangements

The Panel recognises that there would be a conflict of interest if the Panel were to employ ERA staff to process a Proposal initiated by the ERA, so it has a policy to never allow this. RCP Support treats ERA-initiated Proposals in the same way as any other Proposal.

Nevertheless, the ERA and the Panel have taken numerous steps to address potential conflict of interest concerns:

- Clause 2.5.1B of the Market Rules requires the ERA to consult with the MAC before commencing development of a Proposal, and to take into account the MAC's advice in deciding whether and how to develop a Proposal.
- The ERA has developed a 'Statement on ERA initiated Rule Change Proposals'⁶ indicating its policy on when it will develop a Proposal and how it will interact with the Panel in developing a Proposal.
- The arrangements to manage any potential conflict of interest where the ERA provides support to the Panel are specified in a document titled 'Internal governance arrangements for providing secretariat support to the Economic Regulation Authority and the Rule Change Panel',⁷ which explains:
 - the organisation structure for the ERA and the Panel, including separation of the processes for RCP Support and ERA staff;
 - ERA resourcing of RCP Support;
 - separation of decision-making by the ERA's Governing Body and the Panel; and
 - that RCP Support will treat ERA-initiated Proposals in the same way as any other proposal, including the setting of the priority of that proposal.

Attachments

1. Statement on ERA initiated Rule Change Proposals
2. Internal governance arrangements for providing secretariat support to the Economic Regulation Authority and the Rule Change Panel

⁶ The Statement was published on the Corporate Documents page on the ERA website on 24 May 2018.

⁷ This ERA consulted the MAC in developing the Governance Arrangements on 8 August 2018, and published the document on the Corporate Documents page on the ERA website on 22 November 2018.



Economic Regulation Authority Rule Change Proposals

Purpose

The purpose of this document is to inform stakeholders of the Economic Regulation Authority's (ERA) position on the scope of rule changes that it may propose, and those areas that do not fall within this scope.

The ERA is an independent statutory authority responsible for the regulation of access and licensing schemes for the gas, electricity, water and rail industries in Western Australia. The ERA also has inquiry functions.

In addition to the functions described above, the ERA has functions under the Wholesale Electricity Market Rules and the Gas Services Information Rules.

The Wholesale Electricity Market Rules and the Gas Services Information Rules both provide a process whereby any person can propose a rule change. The Rule Change Panel¹ is responsible for the rule change process.

Scope of ERA initiated Rule Change Proposals

As a statutory authority, the ERA's functions and powers are regulated by legislation. The ERA can only undertake activities that are expressly or implicitly authorised by this legislation.

The ERA's functions under the Wholesale Electricity Market Rules and the Gas Services Information Rules include monitoring the effectiveness of the market, undertaking compliance and enforcement activities, completing market approval processes and conducting periodic reviews.

The ERA will only initiate rule change proposals that are conducive or incidental to the performance of its functions under the rules. This means that the ERA may consider initiating a rule change where it has identified a legitimate reason to do so in connection with one of these functions. For example, a rule change to address a process deficiency for one of its rule functions is a rule change that the ERA could consider proposing.

The Wholesale Electricity Market Rules also require the ERA to initiate rule changes for some of its periodic review functions. For example, the ERA is responsible for conducting a review of the Ancillary Services standards and requirements at least once every five years. Clause 3.15.3 of the Wholesale Electricity Market Rules provides that if the ERA's review recommends any changes to the standards or requirements, then it must initiate a rule change proposal. Similar requirements apply for its other periodic review functions².

The ERA's functions do not extend to initiating rule change proposals to develop the market or set policy.

The ERA will consult with the Market Advisory Committee or the Gas Advisory Board prior to submitting a rule change proposal. The ERA may also consult directly with the Rule Change Panel and other parties, including the Australian Energy Market Operator and the Public Utilities Office, when developing a rule change proposal.

¹ The Rule Change Panel is an independent body established by the *Energy Industry (Rule Change Panel) Regulations 2016*.

² Refer to clauses 3.15.3, 3.18.20, 4.5.19 and 4.11.3E(e) of the Wholesale Electricity Market Rules.

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Internal governance arrangements for providing secretariat support to the Economic Regulation Authority and the Rule Change Panel

Change in the ERA's role

The Energy Markets division of the ERA Secretariat has expanded as the ERA has taken on additional responsibilities. These obligations include providing secretariat support to the Rule Change Panel, compliance and enforcement activities, and undertaking periodic reviews of several key market methods, such as ancillary service requirements and the outage planning process.

Some of these responsibilities require the ERA to propose rule changes that are conducive or incidental to the performance of its functions. For example, as part of a method review, the ERA is obligated to action its recommendations as Rule Change Proposals, and the ERA must formulate a Rule Change Proposal to address a process deficiency. Therefore, an ERA-initiated Rule Change Proposal may influence outcomes in the Wholesale Electricity Market (WEM).

A perceived or actual conflict of interest could exist when the ERA has to conduct its annual review of the effectiveness of the WEM in meeting the market objectives, and make recommendations for improvement to the Minister for Energy. Essentially, the ERA may be assessing the effectiveness of its own Rule Change Proposal.

Provision of support services to the Rule Change Panel

The Rule Change Panel (Panel) was established as an independent body in November 2016. At that time, rule-making functions within the WEM transferred from the Independent Market Operator to the Panel.

The Panel considers proposed amendments to the WEM Rules and the Gas Services Information Rules and decides whether an amendment to the rules would better achieve the objectives of the electricity market and the gas market respectively. Unlike the Independent Market Operator, the Panel can only initiate rule changes that relate to (i) correcting a manifest error or (ii) changes of a minor or procedural nature.¹

The ERA provides support services to the Panel and this support team sits within the Energy Markets division of the ERA. A perceived or actual conflict of interest could exist from having ERA and Panel support teams in close proximity if either team could influence, to its own benefit, the work and deliverables of the other team.

Some members of the Market Advisory Committee (MAC) have questioned how the ERA manages perceived or actual conflicts of interest that may eventuate from the change in the ERA's role, including the provision of support to the Panel. This briefing note identifies the

¹ Clause 2.5.4 of the Market Rules or sub-rule 129(5) of the Gas Services Information Rules.

perceived or potential conflicts of interest raised by industry and sets out the internal arrangements that are in place to manage those conflicts.

Legislative obligations

On 23 November 2016, the *Energy Industry (Rule Change Panel) Regulations 2016*, the *Electricity Industry (Wholesale Electricity Market) Amendment Regulations (No.2) 2016* and *Gas Service Information Amendment Regulations (No.2) 2016* were published in the Western Australian Government Gazette.² These enacted the changes outlined above.

The legislated obligation for the ERA to provide secretariat services to the Panel is provided in regulation 23 of the *Energy Industry (Rule Change Panel) Regulations 2016*:³

Regulation 23

23. Authority to provide administrative support

- (1) There is to be an executive officer of the Rule Change Panel.
- (2) The Authority must –
 - (a) make available the executive officer and any other staff member whose assistance the Rule Change Panel may reasonably require; and
 - (b) make available the services and facilities the Rule Change Panel may reasonably require on the terms agreed to by the Rule Change Panel and the Authority; and
 - (c) provide any other assistance the Rule Change Panel or the members of the Rule Change Panel may reasonably require for the Rule Change Panel to perform its functions.
- (3) It is a function of the Authority to –
 - (a) make available the executive officer, staff members, services and facilities referred to in sub regulation (2); and
 - (b) provide the assistance referred to in sub regulation (2).

The practical arrangements for this are captured in Terms of Agreement signed by the respective Chairs of the ERA and Panel.

There is no legislative requirement to establish internal ring-fencing arrangements to segregate the ERA staff that support the Panel (known as RCP Support) from the wider ERA Secretariat. However, the ERA supports good corporate governance and so has introduced internal arrangements to mitigate any perceived or potential conflicts of interest.

Before addressing such conflicts, the ERA has to understand what they may be. The ERA has identified a range of potential conflicts, after reviewing comments from the MAC and responses to the WEM Report, and through internal discussions. These are listed in Table 1.

² [Government Gazette No 207 Special](#)

³ Refer to regulation 23 of the [Energy Industry \(Rule Change Panel\) Regulations 2016](#)

Table 1: Potential conflicts of interest

Potential conflicts	ERA comment
The ERA must objectively assess the effectiveness of the WEM, whilst at the same time is able to influence outcomes in the WEM through its own Rule Change Proposals.	Without action a potential conflict could exist. The ERA has clearly identified the limited set of circumstances in which it is appropriate for the ERA to initiate a Rule Change Proposal. These circumstances seek to minimise the ERA's influence over outcomes in the WEM. Once the ERA proposes a rule change, it is bound by the rule change process. This is addressed in the <i>Internal governance</i> section.
The ERA Secretariat is involved, via RCP Support, in developing Rule Change Proposals and also, via compliance and enforcement, in monitoring participants' compliance with the WEM Rules.	No actual conflict exists if the intent of this comment is that the ERA Secretariat may influence the development of a Rule Change Proposal to seek some benefit for itself. For example, if the ERA Secretariat was to influence a rule change that may result in greater compliance and enforcement activity, which is then picked up by another in-house team. The functions of the ERA are outlined in the WEM Rules. There is no benefit or detriment for the ERA derived from trying to influence or conduct more or less activity across its various functions. There are also internal arrangements in place as outlined in the <i>Internal governance</i> section.
The ERA could utilise RCP Staff to develop its own rule change proposals.	No actual conflict exists. The ERA has to undertake all its regulatory functions. There is no overall benefit in allocating more resources to one section if this risks meeting legislative obligations in another section. Support provided to the Panel is subject to Terms of Agreement. If the Panel has concerns around the services provided, such as the level of resourcing, there are processes it can follow to address these concerns. Refer to the <i>Legislative obligations</i> and <i>Resourcing</i> sections.
RCP Support could be influenced by the ERA Secretariat to assign a higher priority to ERA-initiated Rule Change Proposals.	No actual conflict exists. Under the Panel's 'Framework for Rule Change Proposal Prioritisation' when RCP Support recommends an urgency rating for a Rule Change Proposal to the Panel, they must also provide the Panel with the views of MAC members on the urgency rating. RCP Support would need to justify to the Panel any discrepancies between its recommendations and those of the MAC. Refer to the <i>Internal governance</i> section.

Current status

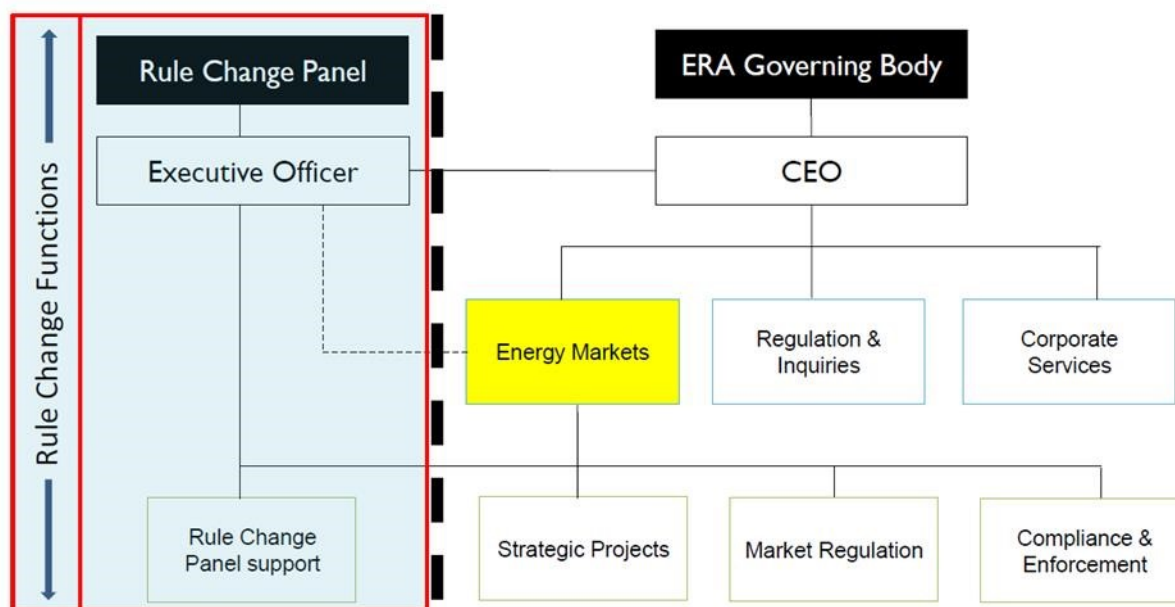
The ERA is committed to open and transparent regulation as outlined in its online Transparency Statement.⁴ This document provides further information on internal governance arrangements.

Organisational structure

The ERA and Panel functional reporting structure is shown in Figure 1 below.

⁴ ERA website, [Transparency Statement](#)

Figure 1: ERA and Panel functional reporting lines



This diagram shows the separate reporting lines through to the two decision-making bodies, as well as the demarcation of roles and responsibilities for staff in RCP Support and the wider ERA Secretariat.

The Executive Officer and RCP Support report directly to the Panel on all Panel matters. The organisational structure and reporting lines minimise the risk of the ERA Secretariat, as the employer, being able to influence the Executive Officer and RCP Support in the work they do for the Panel.⁵

This does not and should not prevent the Executive Officer and RCP Support from consulting with the ERA Secretariat where necessary on rule change matters, as they may do with any other market participants.

Resourcing

The requirement to provide secretariat support to the Panel is provided in the legislation and managed through Terms of Agreement between the Panel and the ERA. In practice, the level of resourcing depends on several factors including the:

- number of Rule Change Proposals to be enacted
- prioritisation of those proposals by the Panel
- ability of the Australian Energy Market Operator to:
 - provide feedback on Rule Change Proposals
 - implement the rule changes once they have been accepted by the Panel.

The ERA Secretariat manages its internal resources efficiently. This may mean diverting staff from one section to another to address short-term workload pressures. Therefore, someone

⁵ For example, the ERA will not direct or instruct the Executive Officer or RCP Support on any Rule Change Proposal being considered by the Panel.

from another section in the ERA Secretariat may be temporarily assigned to assist RCP Support. However, restrictions do exist. For example, ERA Secretariat staff responsible for developing an ERA-initiated Rule Change Proposal will not be involved in making a recommendation to the Panel on the proposal.

If the Panel decides it has insufficient resources to progress rule changes to an acceptable timeframe then it will seek additional resources from the ERA. These can be provided internally or by using consultants or contract staff.

Internal governance

Corporate arrangements

The ERA is required to provide the Executive Officer and other staff, services and facilities to the Panel. To mitigate against potential conflicts of interest or perceptions of bias, the following arrangements apply in day-to-day operations.

The ERA's Governing Body is separate from the Panel and has no involvement in decisions made by the Panel.

Segregation arrangements apply to the corporate administrative arrangements for both organisations. This includes separate financial cost centres and different email addresses. The Panel has a separate section on the ERA's website and a separate approval process for web publications.

The main document management system at the ERA, TRIM, has separate sections for storing ERA and Panel documents. The ERA's Governing Body cannot access any Panel files and the Panel members cannot access any ERA files. The Secretariat and RCP Support have full access to TRIM but there are extensive security and audit features and every action on TRIM is recorded.

Similar arrangements apply to internal electronic filing and the board management meeting platform, Convene. The members of the Panel and the ERA can only see meetings or meeting papers for their own organisation.

ERA-initiated Rule Change Proposals

Following changes to its regulatory functions, the ERA prepared a statement on initiating Rule Change Proposals.⁶ This states that the ERA's functions do not extend to initiating a Rule Change Proposal to develop the market or set policy.

Should the ERA intend to propose a rule change within this defined scope, it must comply with the process outlined in the WEM Rules.⁷ This requires the ERA to consult with the MAC before it develops a Rule Change Proposal or provides material support to another party to develop a Rule Change Proposal. This ensures that the market is aware of any rule change related activity by the ERA well before any proposals are lodged with the Panel. Should a perceived or actual conflict of interest be identified for an ERA-initiated Rule Change Proposal, this can be addressed on a case-by-case basis as part of the rule change process.

⁶ [ERA initiated Rule Change Proposal](#)

⁷ Market Rule 2.5.1B

When recommending how urgent a Rule Change Proposal should be to the Panel, RCP Support uses the Panel's Framework for Rule Change Proposal Prioritisation and Scheduling. This requires RCP Support to also provide the Panel with the views of MAC members on the urgency rating. Any discrepancy between the urgency ratings of RCP Support and the MAC would need to be explained to the Panel. The ERA cannot influence the urgency rating assigned to its own Rule Change Proposals.

The ERA has the option to comment on Rule Change Proposals, like any other market participant. The Panel treats and publishes an ERA submission in the same way as any other submission.

Conclusion

The internal process arrangements, the independence of the ERA and the Panel and the transparency of the rule change process are sufficient to mitigate any perceived or actual conflict of interest that may arise from the change in the ERA's role and from the ERA Secretariat and RCP Support existing within the same organisation.

If any significant concerns remain then MAC members should:

- explain their concerns in writing to the ERA Chief Executive Officer
- identify any events or outcomes that they believe may have resulted from a conflict of interest.

Last updated: 25 September 2018