



INDEPENDENT  
MARKET  
OPERATOR

## Market Advisory Committee

### Minutes

<b>Meeting No.</b>	74
<b>Location</b>	IMO Board Room Level 17, 197 St Georges Terrace, Perth
<b>Date</b>	Wednesday 13 August 2014
<b>Time</b>	2:00 PM – 4:35 PM

<b>Attendees</b>	<b>Class</b>	<b>Comment</b>
Allan Dawson	Chair	
Erin Stone	Compulsory – IMO	Proxy
Dean Sharafi	Compulsory – System Management	
Will Bargmann	Compulsory – Synergy	
Matthew Fairclough	Compulsory – Western Power	Proxy
Shane Cremin	Discretionary – Generator	
Andrew Stevens	Discretionary – Generator	
Andrew Sutherland	Discretionary – Generator	
Michael Zammit	Discretionary – Customer	
Steve Gould	Discretionary – Customer	
Geoff Gaston	Discretionary – Customer	
Peter Huxtable	Discretionary – Contestable Customer Representative	
Simon Middleton	Minister's Appointee – Observer	(2:30 PM – 3:10 PM)
Elizabeth Walters	Economic Regulation Authority (ERA) – Observer	
<b>Apologies</b>	<b>From</b>	<b>Comment</b>
Kate Ryan	Compulsory – IMO	
Shane Duryea	Compulsory – Western Power	
<b>Also in attendance</b>	<b>From</b>	<b>Comment</b>
Matthew Pember	System Management	Observer
Chris Campbell	Alinta Energy	Observer
Anders Sangkuhl	Alinta Energy	Observer
Jo Garland	Synergy	Observer (2:50 PM – 3:50 PM)

Richard Wilson	EnerNOC	Observer
Warren McEvoy	Tesla	Observer
Fan Zhang	Collgar	Observer
Greg Turnbull	Western Power	Observer (arrived 3.25 PM)
Jenny Laidlaw	IMO	Observer
Greg Ruthven	IMO	Observer
Bryn Garrod	IMO	Observer
Brendan Clarke	System Management	Presenter
Andrew Van de Werve	IMO	Presenter (arrived 4:10 PM)
Laura Koziol	IMO	Presenter
Anne-Marie Foo	IMO	Observer and Minutes

Item	Subject	Action
1.	<p><b>WELCOME</b></p> <p>The Chair opened the meeting at 2:00 PM and welcomed members to the 74<sup>th</sup> meeting of the Market Advisory Committee (MAC).</p>	
2.	<p><b>MEETING APOLOGIES / ATTENDANCE</b></p> <p>The following <b>apologies</b> were received:</p> <ul style="list-style-type: none"> <li>• Kate Ryan (Compulsory – IMO)</li> <li>• Shane Duryea (Compulsory – Western Power)</li> </ul> <p>The following <b>proxies</b> were noted:</p> <ul style="list-style-type: none"> <li>• Erin Stone for Kate Ryan (Compulsory – IMO)</li> <li>• Matthew Fairclough for Shane Duryea (Compulsory – Western Power)</li> </ul> <p>The following <b>presenters</b> and <b>observers</b> were noted:</p> <ul style="list-style-type: none"> <li>• Matthew Pember (Observer, System Management)</li> <li>• Chris Campbell (Observer, Alinta Energy)</li> <li>• Anders Sangkuhl (Observer, Alinta Energy)</li> <li>• Jo Garland (Observer, Synergy)</li> <li>• Richard Wilson (Observer, EnerNOC)</li> <li>• Warren McEvoy (Observer, Tesla)</li> <li>• Fan Zhang (Observer, Collgar)</li> <li>• Greg Turnbull (Observer, Western Power)</li> <li>• Jenny Laidlaw (Observer, IMO)</li> <li>• Greg Ruthven (Observer, IMO)</li> <li>• Bryn Garrod (Observer, IMO)</li> <li>• Brendan Clarke (Presenter, System Management)</li> <li>• Andrew Van de Werve (Presenter, IMO)</li> <li>• Laura Koziol (Presenter, IMO)</li> <li>• Anne-Marie Foo (Observer and Minutes, IMO)</li> </ul>	

<p><b>3.</b></p>	<p><b>MINUTES OF PREVIOUS MEETING</b></p> <p>The minutes of MAC Meeting No. 73, held on 25 June 2014, were circulated to members prior to the meeting.</p> <p>The following amendments were agreed:</p> <p><b>Section 6b: page 7 of 10</b></p> <ul style="list-style-type: none"> <li>• Mr Will Bargmann noted Mr Dean Sharafi's comments on the calculation of replacement data for unavailable SCADA data and considered that Market Participants would benefit from understanding System Management's methodology for calculating replacement SCADA data. Mr Bargmann requested that the minutes are updated to include an action item for System Management to provide an overview of the methodology used to replace SCADA values in its estimates.</li> <li>• Mr Sharafi agreed to provide this overview at an upcoming MAC meeting.</li> </ul> <p><i>Action Points:</i></p> <ul style="list-style-type: none"> <li>• <i>The IMO to amend the minutes of Meeting No. 73 to reflect the agreed changes and publish on the Market Web Site as final.</i></li> <li>• <i>System Management to present an overview of the methodology used to replace SCADA values in its estimates, at an upcoming MAC meeting.</i></li> </ul>	<p><b>IMO</b></p> <p><b>SM</b></p>
<p><b>4.</b></p>	<p><b>ACTIONS ARISING</b></p> <p>The Chair invited Ms Erin Stone to update the MAC on the current action items. The following points were noted:</p> <ul style="list-style-type: none"> <li>• <b>Item 18:</b> Mr Matthew Fairclough noted that a presentation is currently being prepared to present at an upcoming MAC meeting.</li> <li>• <b>Item 20:</b> Ms Stone noted that weekly industry updates on the Muja transformer failure will become less frequent as System Management is now dispatching one Muja unit and is unlikely to reduce this until the Merredin transformer is operational. Weekly updates will be reinstated when further analysis is required. Mr Andrew Sutherland noted that attendance from Market Participants was likely to be low without the attendance of Western Power representatives.</li> <li>• <b>Item 29:</b> Ms Stone noted that this action item was raised as part of the discussions around the Muja transformer failures and asked MAC members whether the action item needed to remain open. Mr Andrew Stevens noted that the issue was broader than the Muja transformer failure. Mr Sutherland agreed noting that Market Participants should be aware if they are being dispatched in or Out of Merit. The Chair agreed to keep the action item open.</li> <li>• <b>Item 32:</b> Ms Stone noted that the drafting for the Rule Change Proposal: Administrative Improvements to the Outage Process (RC_2014_03) is currently under review by the IMO's Legal team.</li> <li>• <b>Item 35:</b> Ms Stone noted that Synergy and Alinta Energy had provided a paper that would be discussed during Agenda Item 6b.</li> <li>• <b>Item 36:</b> Ms Stone informed MAC members that the IMO will start publishing the Provisional Balancing Price at 11:00 AM on the same</li> </ul>	

	<p>day it receives the data from System Management for all Business Days from 1 September 2014.</p> <ul style="list-style-type: none"> <li>• <b>Item 37:</b> Ms Stone noted that the review to assess the accuracy of Balancing Prices will happen at the end of 2014 and the action item will remain open until then.</li> <li>• <b>Item 38:</b> Ms Stone asked the MAC members for a consensus on the proposed changes to the STEM Submission window. Ms Jenny Laidlaw noted that no feedback had been received since the previous MAC meeting and requested that feedback be provided within two weeks.</li> </ul> <p>Mr Stevens noted that both options would be an improvement to the current STEM Submission window. Mr Bargmann also noted that Synergy would prefer to extend the STEM Submission window but not the Bilateral Submission window.</p> <p>Ms Laidlaw asked MAC members how long the STEM Submission window should be extended for. Mr Stevens proposed one hour. Mr Bargmann suggested that one hour would be appropriate but that he would check with his operational area.</p>	
5.	<p><b>CP_2014_08: ANNUAL APPROVAL OF FACILITY COSTS TO STREAMLINE ANCILLARY SERVICE PROCUREMENT</b></p> <p>The Chair provided an overview of the concept paper. The following key points were discussed:</p> <ul style="list-style-type: none"> <li>• Ms Elizabeth Walters stated that the ERA had not been consulted with respect to this proposal prior to the MAC meeting. The Chair noted that this was a concept paper to be tested with MAC members prior to further development and that the ERA would be involved in the development of such a mechanism. Ms Walters stated that the ERA would have views on the proposal but that this was not the forum to provide those views.</li> <li>• Mr Bargmann asked whether the proposal was for Market Participants to participate voluntarily or whether it is expected to be mandatory. The Chair clarified that the intention was for all generators to participate to ensure that a full range of Facilities are available to respond to an event.</li> <li>• Mr Sharafi noted that network constraints should be considered more holistically as part of the Electricity Market Review, rather than in a piecemeal manner. Mr Sharafi also noted that System Management has some concerns about the way in which the proposed solution would work and asked if MAC members would be willing to provide their short run marginal cost (SRMC) to facilitate such a mechanism.</li> <li>• Mr Sutherland noted that a Facility's SRMC varies significantly, depending on a range of factors. Mr Bargmann added that fuel prices also led to variability in a Facility's SRMC.</li> <li>• Mr Sutherland asked whether the price would be binding. The Chair noted that it was, and stated that this is a mechanism to provide generators income when System Management dispatches a Facility in relation to a constraint in the network. Mr Stevens noted that System Management can already dispatch a Facility Out of Merit but at the moment a Market Participant can change its price to reflect its SRMC.</li> </ul>	

	<p>The Chair clarified that this was not the case where the Facility has market power and must bid at its short run marginal cost. Mr Bargmann noted that his interpretation of the Market Rules was that a Market Participant is only required to bid at the SRMC for a Facility where its bidding behaviour relates to market power. The Chair reiterated that the purpose was to provide appropriate income for providing Ancillary Services.</p> <ul style="list-style-type: none"> <li>• Mr Chris Campbell supported the proposal but noted that the price to be offered should not be mandated. Mr Stevens noted that in the circumstances where there is more than one Facility available, there should be no mandated price but agreed that the price should be cost reflective where there is only one Facility able to provide the necessary service. Mr Stevens highlighted the complexities that this raised.</li> <li>• Mr Sutherland noted that year ahead binding prices would make pricing difficult for generators and is unlikely to result in an efficient outcome. Mr Sutherland therefore queried whether there could be a structure developed that didn't require prices to be declared so far ahead.</li> <li>• Mr Bargmann noted that this proposal overlapped with the review of the Muja transformer failure that the Public Utilities Office (PUO) was undertaking. The Chair clarified that the scope of work for PUO's review was about the response of the organisations involved. Mr Bargmann stated that he understood that the review would also consider any necessary improvements to the process.</li> <li>• Mr Bargmann also noted that there needs to be a better distinction between market and network driven costs and who should bear the associated costs. The MAC discussed the current problems with respect to the recovery of costs related to the Muja transformer failure. The Chair agreed that further guidance is necessary with respect to the classification and allocation of costs and noted that the intention of this concept paper is to find a more equitable solution under the current arrangements.</li> <li>• Mr Shane Cremin noted that the proposal had merit and that further discussion would be required to ensure that an appropriate regime was developed. The Chair noted that members should consider the proposal further and that the IMO would develop the concept further for discussion at a future MAC meeting.</li> </ul> <p><i>Action Point: The IMO to develop the proposal in the concept paper CP_2014_08: Annual Approval of Facility Costs to Streamline Ancillary Service Procurement further for MAC to consider at a future meeting.</i></p>	<p><b>IMO</b></p>
<p><b>6a.</b></p>	<p><b>MARKET RULE CHANGE OVERVIEW</b></p> <p>Ms Stone provided an overview of the current Rule Change Proposals and informed MAC members that the first round of consultation for Rule Change Proposal: Removal of Facility Aggregation (RC_2014_02) had closed and that the indicative timeframes associated with Rule Change Proposals in progress may change depending on the outcomes of the Electricity Market Review.</p>	

<p><b>6b.</b></p>	<p><b>PRC_2014_05: REDUCED FREQUENCY OF DETERMINING THE ENERGY PRICE LIMITS AND MAXIMUM RESERVE CAPACITY PRICE</b></p> <p>The Chair invited Ms Laura Koziol to present this agenda item. Ms Koziol provided a brief summary of the pre Rule Change Proposal.</p> <p>The following points were discussed:</p> <ul style="list-style-type: none"> <li>• The Chair noted that Synergy and Alinta Energy had provided suggestions for in-period review triggers which were circulated in the meeting papers. The Chair commented that a fuel disruption was not a suitable trigger but that some of the suggestions could be implemented as examples in the Market Rules. Ms Stone noted that the IMO would also incorporate the idea of a “sustained significant change”.</li> <li>• Mr Peter Huxtable queried whether the indexation to the Producer Price Index (PPI) reflected changes in economy and exchange rates. Ms Stone confirmed that these factors were included in the PPI.</li> <li>• Mr Stevens queried whether the proposed annual PPI indexation could be quarterly instead. The Chair noted that the Maximum Reserve Capacity Price (MRCP) was only used annually which would render a quarterly indexation obsolete. Mr Will Bargmann suggested that a quarterly indexation of the Energy Price Limits may require system changes for Market Participants. The Chair noted the IMO would investigate the potential impact and effort of conducting a quarterly indexation.</li> <li>• Mr Bargmann questioned the removal of the governance over the MRCP methodology which was implicit in the existing procedure. Ms Stone noted that the PUO could make the IMO’s decision to undertake an in-period review a reviewable decision.</li> <li>• Mr Bargmann suggested that IMO could include the reasons for changes to the previous methodology and/or values in the review report. Ms Koziol clarified that this was required under the current drafting.</li> <li>• Mr Cremin queried why an in-period review would not include a methodology review. Ms Stone clarified that this would complicate the review and was not necessary as the current drafting allows the regular review to be conducted within five years if required.</li> <li>• Mr Geoff Gaston noted he would prefer to delay the Rule Change Proposal until after the completion of the Electricity Market Review.</li> </ul> <p>The Chair noted that the IMO would consider the feedback from MAC members and progress the pre Rule Change Proposal accordingly.</p> <p><i>Action Points:</i></p> <ul style="list-style-type: none"> <li>• <i>The IMO to evaluate the costs and implications of a quarterly indexation of the MRCP and Energy Price Limits to the PPI.</i></li> <li>• <i>The IMO to consider feedback from MAC members and to progress the pre Rule Change Proposal: Reduced Frequency of Determining the Energy Price Limits and Maximum Reserve Capacity Price (PRC_2014_05) accordingly.</i></li> </ul>	<p><b>IMO</b></p> <p><b>IMO</b></p>
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7a.	<p><b>CARBON TAX – RETROSPECTIVE REPEAL AND PASS THROUGH OF COST SAVINGS</b></p> <p>The Chair invited Mr Gaston to present on this agenda item. Mr Gaston provided an overview of the obligations on Market Participants with respect to the retrospective repeal of the carbon tax and noted that the purpose of this discussion was to find a way of facilitating the transfer of the carbon costs from the generators through to end-use consumers.</p> <p>The following points were discussed:</p> <ul style="list-style-type: none"> <li>• MAC members noted that carbon costs were implicit in STEM, Balancing, Out of Merit and Ancillary Services costs.</li> <li>• The Chair noted that the repeal of the carbon tax is outside of the IMO's functions under its governing legislative framework. However, the Chair noted that the IMO would provide the information relevant to Market Participants to the extent that it is able to do so.</li> <li>• Mr Bargmann noted that Synergy has had detailed discussions with the Australian Competition and Consumer Commission (ACCC) with respect to the obligations on Market Participants and introduced Ms Jo Garland to provide an overview of these discussions and Synergy's legal views on the matter. Ms Garland noted that on the basis of these discussions, the ACCC did not expect at this stage to see refunds being made by Market Generators but did expect the cost savings to be passed on. Mr Stevens asked whether this advice was in writing. Ms Garland noted that it was not.</li> <li>• The Chair noted that conversations with the Australian Energy Market Operator identified that the ACCC and Energy Supply Association of Australia are working on how to deal with the problematic backdated legislation (18 days).</li> <li>• Mr Gaston noted that it was easier to identify the customer in the Wholesale Electricity Market, but that it is up to generators to reflect level of carbon costs for those 18 days and justify that value.</li> <li>• Mr Sutherland asked Ms Garland whether the ACCC provided a reason behind why they thought that the STEM and Balancing Market were not included in the calculation of refunds. Ms Garland clarified that it was not that they shouldn't be included but that the complexities had not been resolved at this stage.</li> <li>• The Chair noted that each participant has to assess their own level of risk and take the necessary actions. The Chair also noted that to help participants identify their customers, the IMO could provide STEM, Balancing Market and Bilateral Contract volumes for the 18 days, subject to the confidentiality status of this information.</li> <li>• Mr Steve Gould noted that any allocation mechanism should be kept simple. Mr Gould also noted that if there is no mechanism to identify who a generator could pay then the ACCC couldn't compel the pass through of these costs.</li> <li>• MAC members discussed what information could help generators identify their customers and how this could be determined. The Chair noted that if Market Participants agree to disclose the necessary information then the IMO will be able to assist by providing the</li> </ul>	
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	<p>necessary information. Mr Gaston requested the IMO to provide a list of information that it could provide to assist participants.</p> <ul style="list-style-type: none"> <li>• Mr Warren McEvoy queried the timeline of the application of the refund and cost savings. Ms Garland noted that the refund applied only to the 18 days and the cost savings apply going forward and should cover the financial year. Mr McEvoy also asked what happens in the circumstance where a business did not include carbon in its cost when the tax was imposed. Ms Garland noted that the ACCC will be expecting businesses to take a reasonable approach and provide information to substantiate its position.</li> <li>• Mr Michael Zammit asked whether the refund was required to be passed through by a certain time. Mr Gaston responded that there was no deadline.</li> <li>• The Chair reiterated that this process is outside of the IMO’s functions but that the IMO would help by providing the necessary information, to the extent possible.</li> <li>• The Chair also noted that if any Market Participant saw the IMO as its customer and provided the refund to the IMO, it would need to seek further advice from MAC members as to how to allocate the refunded amount.</li> <li>• Mr Huxtable asked how much the total energy consumption was. Mr Gaston noted that this was the missing piece of information that was being requested from the IMO.</li> </ul> <p>The Chair noted that the IMO would investigate what information could be provided to assist Market Participants to allocate the carbon tax refunds for the 18 days and provide further information about the confidentiality status of the required information for MAC members to consider.</p> <p><i>Action Point: The IMO to investigate what information could be provided to assist Market Participants to allocate the carbon tax refunds and provide further information about the confidentiality status of the required information for MAC members to consider.</i></p>	<p><b>IMO</b></p>
<p><b>7b.</b></p>	<p><b>DISCUSSION PAPER: LOAD REJECTION RESERVE COSTING UPDATE</b></p> <p>The Chair invited Mr Brendan Clarke to present an overview of the discussion paper on the Load Rejection Reserve Service study.</p> <p>The following key points were discussed:</p> <ul style="list-style-type: none"> <li>• Ms Laidlaw noted that the costs were not based on tripping generators off. Mr Clarke clarified that the costs were based on turning down generators and replacing non-flexible generators with flexible generators which cost more to run.</li> <li>• Mr Stevens queried how often the combination of Load Following Ancillary Services (LFAS), Spinning Reserve and automatic governor response would fall short of supporting such Load Rejection Reserve Events and resulting effects such as transformer failures. Mr Clarke clarified that this was specific to line failures. Ms Laidlaw noted that if automatic governor response and LFAS were reduced, the potential loss of load would still be covered under the current circumstances. Mr Clarke noted that this was under a future scenario.</li> </ul>	



	<ul style="list-style-type: none"> <li>• Mr Campbell asked whether this was purely hypothetical. The Chair noted that the study accounted for an expected scenario where the network would be faced with a significant change that would increase the Load Rejection Reserve Service requirement.</li> <li>• The Chair also noted that potential network connection agreements in the future could result in the Load Rejection Reserve Service requirement and associated costs to the market increasing significantly under the current arrangements.</li> <li>• Mr Greg Turnbull noted that Western Power's decision on the solution to connect a new customer would consider the potential increased costs associated with the increased amount of Load Rejection Reserve Service. He noted that the offer made would be based on the most cost effective solution. The Chair clarified whether this meant that where a solution that increased the requirement for Load Rejection Reserve Service Western Power would agree to the connection and the market would bear the cost of the increased requirement. Mr Turnbull noted that Western Power had an in-principle position that the causer should pay for the additional requirement either through tariffs or a capital contribution. The Chair clarified that under the current arrangements the market bears the additional cost of the increased Load Rejection Reserve Service requirement.</li> <li>• MAC members agreed that there would appear to be a fundamental problem with a customer being able to connect under a cheaper network access contract and Market Participants funding the increased annual Load Rejection Reserve Service cost.</li> <li>• Mr Fairclough suggested that the IMO should change the Market Rules to change the allocation of costs to a causer pays basis. The Chair noted that the customer connecting to the network is unlikely to be a Rule Participant and therefore cannot be allocated costs. Ms Laidlaw further noted that the IMO did not have enough information to allocate these costs to the causer and that the network operator was in a better position to do so.</li> <li>• The Chair stated that there is a regulatory decision to be made with respect to network connections that is made on a least cost approach which will determine whether the customer must pay for a network upgrade or the market bears the costs associated with the increased Load Rejection Reserve Service cost. Mr Sharafi noted that this is not a unique problem and that solutions must exist within other jurisdictions. The Chair noted that the distinction between the different Ancillary Services needed to be determined before developing a cost allocation methodology.</li> </ul> <p>The Chair thanked Mr Clarke for raising the problem for the MAC's attention early.</p>	
7c.	<p><b>DISCUSSION PAPER: IMO OPERATIONAL PLAN</b></p> <p>The Chair invited Mr Andrew Van de Werve to provide an overview of the IMO's 2014/2015 Operational Plan.</p> <ul style="list-style-type: none"> <li>• Mr Van de Werve considered a slight increase in the approved allowable revenue accounted for the comprehensive market audit that was to be conducted for the IMO and System Management. The Chair</li> </ul>	

	<p>noted that the audit has been deferred as a result of the Electricity Market Review, and that the costs allowed for the audit would be refunded to Market Participants in the next period.</p> <ul style="list-style-type: none"> <li>• The Chair noted the reduction in capital expenditure was driven by the upcoming planned replacement of IMO systems as the current systems will be 10 years old and need to be retired around 2016/17.</li> <li>• Mr Bargmann queried whether System Management fees are submitted into the same review process to the ERA as the IMO. The Chair noted that the IMO is required to verify whether System Management's Operational Plan is consistent with its Allowable Revenue and provide this advice to the Minister. Mr Bargmann asked who scrutinised ERA's expenditure to which Ms Walters noted that it was reviewed by Treasury.</li> <li>• The Chair highlighted that the oscillation in IMO fees was not reflective of underlying costs, but rather of fee recovery as surpluses are refunded two years later.</li> </ul>	
<b>8.</b>	<p><b>MARKET PROCEDURES OVERVIEW</b></p> <p>Ms Stone provided an overview on the current Procedure Change Proposals and noted that the first round of consultation for the Procedure Change Proposal: Reserve Capacity Security (PC_2013_05) closed on Monday 11 August 2014.</p>	
<b>9.</b>	<p><b>WORKING GROUPS</b></p> <p>Ms Stone informed MAC members of the recent Working Group membership updates reflecting the finalised Synergy structure after the merger.</p> <ul style="list-style-type: none"> <li>• Ms Jacinda Papps is the Synergy representative on the IMO Procedure Change and Development Working Group, whilst Mr John Rhodes has retired his position.</li> <li>• Mr Brad Huppatz is the Synergy representative on the System Management PSOP Working Group, whilst Mr Rhodes and Mr Nick Walker have retired from their positions as Synergy and Verve Energy representatives, respectively.</li> </ul>	
<b>10.</b>	<p><b>GENERAL BUSINESS</b></p> <ul style="list-style-type: none"> <li>• Mr Simon Middleton announced that the Electricity Market Review discussion paper had been publicly released and that a briefing session would be held on 21 August 2014. Mr Middleton also noted, on behalf of the Steering Committee, appreciation for the assistance provided by MAC members throughout the process.</li> <li>• The Chair queried whether a four week consultation period was still planned for the discussion paper and whether the timeframes surrounding the process had changed. Mr Middleton confirmed that the timeframes for consultation and end date for the process not changed.</li> </ul>	
<p><b>CLOSED:</b> The Chair declared the meeting closed at 4:35 PM.</p>		