



INDEPENDENT
MARKET
OPERATOR

Market Advisory Committee

Minutes

Meeting No.	75
Location	IMO Board Room Level 17, 197 St Georges Terrace, Perth
Date	Wednesday 24 September 2014
Time	2:00 PM – 4:00 PM

Attendees	Class	Comment
Allan Dawson	Chair	
Kate Ryan	Compulsory – IMO	
Dean Sharafi	Compulsory – System Management	
Jacinda Papps	Compulsory – Synergy	Proxy
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	(2:15 PM – 4:00 PM)
Elizabeth Walters	Economic Regulation Authority (ERA) – Observer	
Apologies	From	Comment
Will Bargmann	Compulsory – Synergy	
Shane Duryea	Compulsory – Western Power	
Also in attendance	From	Comment
Mike Davidson	System Management	Observer
Paul Hynch	Public Utilities Office (PUO)	Observer
Chris Campbell	Alinta Energy	Observer
Anders Sangkuhl	Alinta Energy	Observer

Jo Garland	Holman Fenwick Willan	Observer (3:00 PM – 3:30 PM)
Richard Wilson	EnerNOC	Observer
Jenny Laidlaw	IMO	Observer
Greg Ruthven	IMO	Observer
Erin Stone	IMO	Presenter
Bryn Garrod	IMO	Presenter
Neil Hay	System Management	Presenter (2:30 PM – 4:00 PM)
Aditi Varma	IMO	Observer and Minutes

Item	Subject	Action
1.	<p>WELCOME</p> <p>The Chair opened the meeting at 2:00 PM and welcomed members to the 75th meeting of the Market Advisory Committee (MAC).</p>	
2.	<p>MEETING APOLOGIES / ATTENDANCE</p> <p>The following apologies were received:</p> <ul style="list-style-type: none"> • Will Bargmann (Compulsory – Synergy) • Shane Duryea (Compulsory – Western Power) <p>The following proxies were noted:</p> <ul style="list-style-type: none"> • Jacinda Papps for Will Bargmann (Compulsory – Synergy) • Matthew Fairclough for Shane Duryea (Compulsory – Western Power) <p>The following presenters and observers were noted:</p> <ul style="list-style-type: none"> • Mike Davidson (Observer – System Management) • Paul Hynch (Observer – PUO) • Chris Campbell (Observer – Alinta Energy) • Anders Sangkuhl (Observer – Alinta Energy) • Jo Garland (Observer – Holman Fenwick Willan) • Richard Wilson (Observer – EnerNOC) • Jenny Laidlaw (Observer – IMO) • Greg Ruthven (Observer – IMO) • Erin Stone (Presenter – IMO) • Bryn Garrod (Presenter – IMO) • Neil Hay (Presenter – System Management) • Aditi Varma (Observer and Minutes – IMO) 	
3.	<p>MINUTES OF PREVIOUS MEETING</p> <p>The minutes of MAC Meeting No. 74, held on 13 August 2014, were circulated to members prior to the meeting. The minutes were accepted as a true record of the meeting.</p> <p><i>Action Points:</i></p> <ul style="list-style-type: none"> • <i>The IMO to publish the minutes of Meeting No. 74 on the Market Web Site as final.</i> 	IMO

4. ACTIONS ARISING

The Chair invited Ms Kate Ryan to update the MAC on the current action items. The following points were noted:

- **Item 18:** Ms Ryan noted that Western Power had advised that the public liability insurance requirements are specified in the Electricity Transfer Access Contract (ETAC) and that the ERA had approved the insurance value of \$50 million in the ETAC for the third Access Arrangement. Ms Ryan also noted that Western Power negotiates individually with consumers on the terms of their contracts. Mr Matthew Fairclough added that he expected that \$50 million would be the insurance value applied in most ETACs. Ms Elizabeth Walters noted that this value would have been approved by the ERA to be a standard. Ms Ryan clarified that the context behind the significance of the insurance value was that it was used to determine insurance costs which are a component of the Maximum Reserve Capacity Price (MRCP). In response to a question from the Chair, Mr Fairclough suggested that \$50 million was an average level. Mr Andrew Sutherland asked if the IMO could investigate whether different levels of insurance costs have a material impact on premiums which may consequently affect the MRCP. He concurred with the Chair that once the initial insurance cost is covered, further increments are likely to be minimal. The Chair agreed that the IMO would investigate an appropriate cost range and conduct analysis of the effect of different levels of public liability insurance value on the MRCP.
- **Item 20:** Ms Ryan noted that the transformer from Merredin was expected to be commissioned that week and that the IMO expected to be updated by Western Power shortly after this occurs.
- **Item 29:** Ms Ryan noted that System Management had provided paper that had been circulated to MAC members. No MAC member raised any further questions.
- **Item 32:** Ms Ryan noted that the Rule Change Proposal: Administrative Improvements to the Outage Process (RC_2014_03) was expected to be submitted into the formal process shortly.
- **Item 37:** Ms Ryan noted that assessing the accuracy of Provisional and Final Balancing Prices remained an open action item.
- **Item 38:** Ms Ryan noted that the feedback received from MAC members indicated support for moving the STEM Submission window by one hour but not the Bilateral Submission window. The IMO would progress the Rule Change Proposal on that basis. In response to a query from Ms Jacinda Papps, the Chair noted that this proposal involved administrative changes only and would therefore be progressed shortly.
- **Item 40:** Ms Ryan noted that this item would be covered under agenda item 7c.
- **Item 42 and 43:** Ms Ryan noted that the Rule Change Proposal: Reduced Frequency of Determining the Energy Price Limits and Maximum Reserve Capacity Price (RC_2014_05) would be progressed shortly on the basis that no significant issues were identified with quarterly indexation of the price limits and this could be

	<p>further considered during the consultation periods if required.</p> <p><i>Action Point:</i></p> <ul style="list-style-type: none"> • <i>With regard to action item 18, the IMO to conduct analysis of the effect of different levels of public liability insurance value on the MRCP and present results at an upcoming MAC meeting.</i> 	IMO
5.	<p>CP_2014_08: ANNUAL APPROVAL OF FACILITY COSTS TO STREAMLINE ANCILLARY SERVICE PROCUREMENT</p> <p>The Chair introduced Ms Erin Stone to provide an overview of the changes made to the concept paper following the last meeting. The following key points were discussed:</p> <ul style="list-style-type: none"> • Mr Simon Middleton queried if participation by generators would be mandatory or voluntary. The Chair responded that all generators would need to participate to cater for the situation where only one Facility is able to provide the service (i.e. due to locational issues). • Mr Middleton questioned whether generators could submit their price for services more than once and if the submitted price would be binding. Ms Stone responded that the proposal was for an annual process under which generators could submit up to five tranches which would then be stacked in order of increasing prices, allowing System Management to dispatch cheapest Facilities first. • Ms Papps noted that Synergy would support an expedited procurement process but this proposal may not be the most feasible solution as it does not allow generators to take into account several variables that would affect their commercial decision-making to enter into such contracts. Mr Chris Campbell noted that the Short Run Marginal Cost (SRMC) for any Facility varies depending on a number of factors such as transport, prevalent fuel prices etc. and therefore the proposal creates uncertainty around cost recovery for generators. Ms Papps also noted that the proposed Australian Government Bond Yield may not be sufficient to cover the inherent variability in SRMC on the day of service provision. Ms Stone noted that the bond yield was intended to be a profit margin rather than a risk margin. • Ms Papps queried whether any advice could be provided on the difference between Dispatch Support Service and Network Control Service contracts. Ms Stone noted that the IMO had earlier provided advice to the Minister's Office, ERA and Western Power. Mr Andrew Stevens asked whether any feedback was provided. The Chair noted that it had not. Mr Middleton noted that the PUO's discussion paper touched on these issues but that it could be considered in more detail as part of the review into the Muja transformer failure. • Mr Geoff Gaston and Mr Sutherland noted their concerns that the proposal required generators to commit to firm service provision with no guarantee of cost recovery. The Chair noted that firm service provision was required even under the current scenario, for example, when a High Risk Operating State has been declared. Mr Gaston argued that this proposal would only shift the costs to another party and not solve the underlying problem. The Chair noted that the current compensation regime in the Balancing Market had not been developed 	

	<p>to cover constraints lasting for more than a Trading Interval and therefore often did not cover a Facility's actual cost.</p> <ul style="list-style-type: none"> • Mr Stevens and Mr Sutherland noted that the difference between Dispatch Support Service and Network Control Service contract is not clear and therefore it is not clear what participants would be entering into. Mr Sutherland stated that the issue to be addressed is when Dispatch Support Service and Network Control Service should be used. In response, the Chair noted that the proposal recommended a trigger mechanism that would allow for System Management to start dispatching Facilities under this regime after five continuous days of Out of Merit generation. • Mr Stevens suggested that other methods should also be considered. He noted that different kinds of services could be pre-defined and at the time it is required, generators could bid competitively to provide a particular pre-defined service. However, he acknowledged the problem of a localised shortfall where there may only be one generator (such as the current Muja transformer failure issue) would still exist. • MAC members discussed how the costs associated with the risks of managing the network could be allocated to Western Power. Mr Middleton asked how the regulatory regime would work when the network contingency standards change. Mr Fairclough clarified that the network is built to the planning standards in the Technical Rules and the planning standard itself would not change when a failure of the network occurs. His understanding was that in the event of failures that exceed the planning standard, the regulatory regime would then require the market to address the problem. He further stated that if Western Power was required to bear the cost of these failures, it is likely that it would be incentivised to over-invest in the network or build in a risk margin. • Mr Middleton questioned how the risk profile could not change when the N-1-1 contingency has been exceeded. Mr Fairclough noted that the risk of two transformers failing is a one-in-one-hundred-year event. The Chair observed that the risk profile would have changed after the first contingency event happened. Mr Sutherland also observed that the first transformer failure event should have triggered some remedial action from Western Power. Mr Shane Cremin and Mr Stevens echoed this opinion and noted that the costs of the current situation are not being placed on the parties that are best placed to manage those costs. • Mr Sutherland noted that the proposal would introduce additional compliance burden for generators, in particular if there are civil penalties imposed. The Chair clarified that this was not the intent of the proposal. He added that it was appropriate for generators to recover their costs plus a modest margin for providing the service. However, he reiterated that the market would need protection for situations where market power could be exercised by a generator. • Dr Steve Gould noted that in his opinion this proposal was too difficult to implement and would not produce much benefit. He added that participation in the proposed scheme was intended to benefit generators and therefore should be voluntary rather than compulsory. • The Chair noted MAC members' request for clarity on Dispatch 	
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	<p>Support and Network Control Services. He also noted that MAC members supported an expedited procurement process and the compensation should cover the cost plus a margin. The Chair further added that on behalf of the MAC, the IMO could request the PUO to provide a policy position on the differences between Dispatch Support Services and Network Control Services and when each should be used. He added that the IMO will canvass members' views at a later date to assess if this proposal should be progressed further.</p> <p><i>Action Points:</i></p> <ul style="list-style-type: none"> • <i>The IMO to request the PUO on behalf of MAC members to provide a policy position on the difference between Dispatch Support Services and Network Control Services.</i> • <i>The IMO to canvass MAC members' feedback on the proposal to expedite Ancillary Services procurement processes at a later date to assess if it should be progressed further.</i> 	<p style="text-align: center;">IMO</p> <p style="text-align: center;">IMO</p>
<p>6a.</p>	<p>MARKET RULE CHANGE OVERVIEW</p> <p>Ms Ryan advised MAC members that the status of current Rule Change Proposals was provided in the MAC papers for their information. No questions or comments were raised.</p>	
<p>7a.</p>	<p>IMO'S SUBMISSION TO THE ELECTRICITY MARKET REVIEW</p> <p>The Chair noted that a copy of the IMO's submission to the Electricity Market Review had been provided to the MAC members in the meeting.</p> <p>Ms Papps asked Mr Middleton whether the timeframe for the next report was still the end of October. Mr Middleton confirmed that it was.</p>	
<p>7b.</p>	<p>CARBON TAX – OPTIONS FOR PROVISIONS OF INFORMATION</p> <p>The Chair invited Dr Bryn Garrod to present on this agenda item. Dr Garrod noted that the IMO had worked out two simple options for providing energy share information to Market Participants. The following points were discussed:</p> <ul style="list-style-type: none"> • Mr Gaston questioned whether the information under the first option could be provided without any agreement. The Chair clarified that Market Participants could be provided their individual information without any permission. • Mr Gaston stated that the first option provided him enough information to work out his Facility's residual share of purchases in the market. Dr Gould also noted that that he was happy to be provided this information. • Mr Sutherland asked for clarification on what 'residual share' means. Dr Garrod confirmed that the residual share was an aggregate for the 18 days, of both STEM and Balancing Market purchases with the Net Bilateral Position netted off. • MAC members discussed how this information could be used by Market Participants to refund the carbon tax. • Ms Jo Garland noted that the ACCC's position on carbon tax refunds in wholesale electricity markets had not changed in that it continued to 	

	<p>prove too difficult.</p> <ul style="list-style-type: none"> The Chair noted that the IMO would provide letters to individual Market Participants with their residual share and include definitions with respect to the figures provided. <p><i>Action Point:</i></p> <ul style="list-style-type: none"> <i>The IMO to provide letters to individual Market Participants with their residual share and include definitions with respect to the figures provided.</i> 	IMO
7c.	<p>REPLACEMENT OF SCADA VALUES – OVERVIEW OF METHODOLOGY</p> <p>The Chair invited Mr Neil Hay to present on this agenda item. The following points were discussed:</p> <ul style="list-style-type: none"> Ms Jenny Laidlaw asked whether System Management’s checking system was automated or manual. Mr Hay answered that the processes are manual. Mr Hay also noted that these processes are more robust where there is an outage or disruption. Mr Dean Sharafi queried the effect of Synergy Facilities not having revenue meters if Synergy had to bid in the market as individual Facilities. His concern was that revenue meters are bi-directional whereas SCADA is not, implying that a Facility consuming locally or generating to cover their own consumption would not show up in Synergy’s meter data. Mr Sutherland noted that this would get picked up by Synergy’s Notional Wholesale Meter. The Chair queried why the data inaccuracy would be any more of an issue if Synergy had to be bid on an individual Facility basis than on a portfolio basis. In response, Mr Sharafi noted that the revenue meter has 0.2% accuracy whereas SCADA data can be materially inaccurate. He further noted that this issue has existed in the market for a long time. The Chair noted that the IMO had already requested Public Utilities Office to rescind the derogation that is currently in place for Synergy’s SCADA meters. Mr Middleton asked if having revenue meters would be a necessity for Synergy to be able to bid on a Facility basis. MAC members agreed that it was not a pre-requisite. Mr Hay noted that Vinalco bids on an individual Facility basis but currently only has SCADA meter data available. Mr Middleton also queried whether smart-grid communication management could be used for generation Facilities. In response, the Chair clarified that SCADA is effectively a smart communication system that allows for data to be recorded every four seconds. Mr Hay added that SCADA systems are used not only in the electricity industry but also in railways, water, transport management etc. The Chair added that metering technology had come a long way and the cost of a generation meter has reduced considerably over the last decade. <p><i>Action Point:</i></p> <ul style="list-style-type: none"> <i>The IMO to publish System Management’s presentation on replacement of SCADA values on the Market Web Site.</i> 	IMO

8.	<p>MARKET PROCEDURES OVERVIEW</p> <p>Ms Ryan highlighted that the Procedure Change Report for the Procedure Change Proposal: Change to the Market Procedure for Reserve Capacity Security (PC_2013_05) and the associated amended Market Procedure would be published shortly.</p>	
9.	<p>WORKING GROUPS</p> <p>No updates were noted.</p>	
10.	<p>GENERAL BUSINESS</p> <ul style="list-style-type: none"> • Mr Sutherland announced that he was due to join Sumitomo Corporation. As Mr Stevens from Bluewaters Power (a Sumitomo company) is already a MAC member, Mr Sutherland noted that he would resign from the MAC in accordance with the requirements under the governance arrangements. The Chair thanked Mr Sutherland for his contribution to the MAC and added that nominations for the vacant position would be invited in the annual MAC review process which will commence shortly. • Ms Ryan noted the IMO is considering changing the date of the next MAC meeting to combine the November and December meetings and that the IMO would send out a notification to confirm the next meeting date. 	
<p>CLOSED: The Chair declared the meeting closed at 4:00 PM.</p>		