



Minutes

MEETING TITLE Market Advisory Committee

MEETING NO 90

DATE Wednesday, 11 May 2016

TIME 2:00pm – 3:05pm

LOCATION Board Room, Level 17, 197 St Georges Terrace, Perth

| Attendees | Class | Comment |
|-----------------|--|---------|
| Kylie O’Keeffe | Chair - IMO | |
| Martin Maticka | Compulsory – AEMO | |
| Dean Sharafi | Compulsory - System Management | |
| Will Bargmann | Compulsory - Synergy | |
| Simon Middleton | Minister’s Appointee – Observer | |
| Geoff Gaston | Discretionary – Customer | |
| Pablo Campillos | Discretionary – Customer | Proxy |
| Steve Gould | Discretionary – Customer | |
| Andrew Stevens | Discretionary – Generator | |
| Shane Cremin | Discretionary – Generator | |
| Wendy Ng | Discretionary – Generator | |
| Geoff Down | Discretionary – Contestable Customer | Proxy |
| Natalie Robins | Economic Regulation Authority (ERA) – Observer | Proxy |

| Apologies | Class | Comment |
|-------------|--|---------|
| Ray Challen | Minister’s Appointee – Small Use Consumer Representative | |

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|-------------------|--|----------------|
| Matthew Cronin | Compulsory – Western Power | |
| Peter Huxtable | Discretionary – Customer | Proxy attended |
| Michael Zammit | Discretionary – Customer | Proxy attended |
| Elizabeth Walters | Economic Regulation Authority (ERA) – Observer | Proxy attended |

| Also in attendance | From | Comment |
|--------------------|------------------|----------------------|
| John Rhodes | Alinta Energy | Observer |
| Ignatius Chin | Bluewaters Power | Observer |
| Laura Koziol | IMO | Observer and Minutes |

| Item | Subject | Action |
|------|---|--------|
| 1. | <p>Welcome</p> <p>The Chair opened the meeting at 2:00pm and welcomed all members to meeting number 90 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"> • Ray Challen • Matthew Cronin • Peter Huxtable • Michael Zammit • Elizabeth Walters <p>The following proxies were noted:</p> <ul style="list-style-type: none"> • Geoff Down • Pablo Campillos • Natalie Robins <p>The following presenters/observers were noted:</p> <ul style="list-style-type: none"> • John Rhodes (Observer – Alinta Energy) • Ignatius Chin (Observer – Bluewaters Power) • Laura Koziol (Observer and Minutes – IMO) | |

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|------------------|--|-------------------|
| <p>3.</p> | <p>Minutes of previous meeting</p> <p>The draft minutes of MAC Meeting No. 89, held on 13 April 2016, was circulated to members with the papers for this meeting. The IMO received a number of comments. Those comments were marked-up in an amended version of the draft minutes that was distributed by the Chair at the beginning of the meeting. The Chair allowed some time for MAC members to read the amendments.</p> <p>After considering the amendments, the draft minutes (as amended) were accepted as a true record of the meeting.</p> <p><i>Action Point: The IMO to publish the minutes of MAC Meeting No.89 on the Market Web Site as final.</i></p> | <p>IMO</p> |
| <p>4.</p> | <p>Actions arising</p> <p>The Chair noted there were no open actions.</p> | |
| <p>5.</p> | <p>Discussion: Electricity Market Review update</p> <p>The Chair invited Mr Simon Middleton to give an update on the Electricity Market Review (EMR) reforms. Mr Middleton gave an overview of the progress and current status of the EMR reforms. In particular, the following points were discussed.</p> <p><u>Network Regulation</u></p> <ul style="list-style-type: none"> Mr Middleton noted that the Application Act had been signed by the Commonwealth Energy Minister and that COAG Energy Council's approval was expected within the next two weeks. Mr Middleton added that another Bill was currently under development that will amend and repeal the relevant Western Australian legislation so that it is consistent with the national regulation framework. It was expected the Bill would be submitted for approval by Government by the end of May 2016. The next step is for the Application Act, and the Bill dealing with local legislation, to be submitted to the Western Australia (WA) Parliament. Mr Middleton noted that a Bill dealing with more controversial or complex local matters, such as access to the constrained network, was planned to be submitted to the WA Parliament in 2017 to allow for the necessary consultation before the Bill is finalised. Mr Shane Cremin asked why the implementation of the constrained network access was addressed separately to the rest of the national regulation framework. Mr Middleton replied that the national regulation framework will only commence on 1 July 2018 and, | |

therefore, only specific matters, such as matters on which Western Power must make submissions to the Australian Energy Regulator, must be resolved in 2016. Mr Middleton noted that, where possible, decisions would be deferred for the benefit of more stakeholder consultation.

- Mr Cremin asked whether there was a risk that that WA Parliament could decide against the application of the national regulation framework in Western Australia. Mr Middleton noted the existence of this risk and that the rejection of the Application Act appeared unlikely.

Energy Market Operations and Processes (AEMO System build)

- Mr Middleton noted that a series of stakeholder meetings was planned to clarify and resolve issues raised in submissions. The aim is to provide clarity to AEMO about the framework for system design and functions by early July 2016. Mr Middleton noted that to allow as much time as possible for implementing and testing, some design elements may need to be prioritised over others.
- Mr Andrew Stevens sought clarification on whether AEMO would be responsible for the system implementation process and if there would be any oversight of AEMO to ensure timely delivery. Mr Middleton confirmed that AEMO would be responsible for development and delivery. Mr Middleton added that the imminent amendment to AEMO's constitution will enable registered Market Participants to be Industry members of AEMO, and that the ERA will review AEMO's system costs. Mr Stevens noted that the testing abilities of market participants would depend on AEMO delivering the system and that he was concerned about the timely delivery of the project if there was no oversight of AEMO's progress. Mr Middleton agreed that the timely implementation of the AEMO system was a significant risk of the EMR. Mr Middleton noted that AEMO had experience with rolling-in other jurisdictions into its system platform, and that a sub-committee for this project was being investigated.
- Mr Will Bargmann asked for an indication of the implementation costs and asked who would be responsible for paying those costs. Mr Middleton confirmed that the costs would be borne by market participants and that AEMO would provide a cost estimate to the ERA as part of its amended Allowable Revenue submission.

Energy Market Operations and Processes (general)

- Mr Middleton noted that the response to the position paper in general supported most of the EMR's suggested reforms. He added that the Steering Committee was cognisant of the more controversial reforms, including the change of the reference node, the allocation of transmission loss residues and the concept for market power mitigation. These matters will require more consultation and some of these may not be included in the initial implementation package. Mr Middleton noted that a final report with an implementation plan would be published in due course. Mr John Rhodes asked why market power mitigation was excluded. Mr Middleton replied that as market power mitigation was not needed for the design of AEMO's systems, more time could be taken for stakeholder engagement on the issue. Mr Middleton noted that the EMR would be engaging a consultant to analyse possible alternatives/options for the market power mitigation mechanisms.

Reserve Capacity Mechanism and transfer of System Management functions to AEMO

- Mr Middleton noted that a rule change combining transitional reforms of the Reserve Capacity Mechanism and the transfer of System Management functions to AEMO will commence on 1 June 2016. Mr Middleton noted that no substantial changes have been made since publication of the exposure drafts.
- Mr Ignatius Chin sought clarification on why the exposure draft for the transfer of System Management functions to AEMO included references to System Management. Mr Middleton advised that the term 'System Management' would be retained to provide consistency with other legal instruments. From 1 July 2016, AEMO will be responsible for the System Management functions and will initially farm out some of the functions to Western Power under an operating arrangement. Mr Pablo Campillos sought clarification on whether changes to the Electricity Industry Act had been necessary for the transfer of functions from System Management to AEMO and from the IMO to AEMO. Mr Middleton replied that only changes to the relevant regulations had been required.
- Mr Middleton noted that the design of the capacity auction was planned to be resolved with the final report published in January 2017, and that the relevant rules were planned to be developed during 2017. The two main issues are the accreditation of

capacity credits in a constrained grid and mitigating market power in the capacity auction.

Rule Change Panel

- Mr Middleton noted that the IMO would not be wound up by 1 July 2016 as Parliamentary Counsel did not have the capacity to finalise the required regulations due to the priority of other EMR reforms. Mr Middleton noted that the IMO would also deal with the outstanding application to the Electricity Review Board (ERB) regarding Vinalco Energy's bidding behaviour during the failure of the Muja transformer. The Chair noted that the IMO was currently waiting for the ERB to be established. The Chair further noted that the IMO would also retain its rule change functions until those functions are transferred to the Rule Change Panel (Panel)/ the Economic Regulation Authority sometime after 1 July 2016.
- Mr Middleton noted that the appointment process for the Panel has been developed and possible panel candidates were being considered. Mr Stevens queried the timeline for the implementation of the Panel. Mr Middleton replied that the exact timing for the implementation had not been decided yet. Mr Stevens sought clarification if Rule Change Proposals addressing manifest errors would be progressed or suspended and which process would apply. Mr Middleton confirmed that any such rule changes would be progressed by the IMO. The Chair clarified that the IMO still had its rule making functions but that all rule changes currently open had been deferred to avoid any inconsistencies with the EMR reforms. However, any rule changes to address manifest errors would be considered, and would likely qualify for the fast track rule change process.
- Mr Campillos asked if market participants could propose rule changes, other than rule changes addressing manifest errors, on matters the EMR had already dealt with. In particular, Mr Campillos asked if market participants could submit Rule Change Proposals on the Reserve Capacity Mechanism once the relevant EMR rule change had commenced. Mr Middleton clarified that such Rule Change Proposals could be submitted to the IMO, but that he expected the IMO would consult with the Steering Committee before progressing the proposal. Mr Middleton added that the Minister would likely discourage the progression of rule changes addressing (particularly if they had the effect of unwinding) any EMR reforms. Mr Cremin asked when the

Minister's power to make rules would expire. Mr Middleton confirmed that it expires in June 2017.

Market Competition

- Mr Middleton noted that, subject to the Minister's approval, a position paper about the triangular model would be published soon. Papers on other issues being dealt with in the market competition work stream, including a paper about the implications of the constrained access model, are planned to be published in the next month or so.
- Mr Stevens sought clarification on whether a paper about the effect of constrained networks on capacity credit allocation and refunds would be published before the options would be considered in working groups. Mr Middleton replied that the order of the engagement process had yet to be decided. Mr Stevens noted that it was important for market participants to know the engagement process. Mr Middleton agreed that this was an important matter requiring more time, which was the reason for excluding it from the Bills going to WA Parliament in 2016.
- Mr Campillos asked if the content of the reforms could change with a new government. Mr Middleton considered that was possible, but more likely for reforms affecting standard customers such as the implementation of full retail contestability. Mr Campillos sought clarification on whether there was a timeline for the implementation of full retail contestability. Mr Middleton replied that the government had not yet agreed on the timeline but that no Bill addressing the retail sector would be tabled in Parliament this year.
- Mr Campillos sought clarification about the purpose of the government's More Power to You campaign. Mr Middleton noted that the Public Utilities Office had launched the campaign to engage with the average consumer who may not understand the fundamentals of electricity pricing and electricity reforms.

6.

General business

- Mr Stevens asked for information about AEMO's human resources structure and the expected level of market fees and sought clarification on how the MAC now interacts with AEMO about such matters. Mr Martin Maticka advised that AEMO had a stakeholder management group and that he would be happy to refer any issues raised by the MAC to that group. Mr Stevens emphasised that the market systems for the operation of the WA market, employee costs and the like were

funded by Market Fees and therefore market participants should be informed about changes to AEMO's structure, and the overall costs. Mr Maticka noted that AEMO's budget for operating the WA market would be subject to the Allowable Revenue process but that he would raise these matters with AEMO. Ms Wendy Ng asked where the AEMO stakeholder group was located. Mr Maticka advised that stakeholder management group is located in Melbourne, but had WA representation.

- The Chair suggested that AEMO may wish to inform the MAC about its stakeholder engagement process at the next MAC meeting. Mr Maticka agreed to raise the matter with AEMO's stakeholder management group.
- The Chair also noted that the future role of the MAC and, in particular, its interaction with AEMO, would likely be considered by the Panel when it was established. Further, the Economic Regulation Authority may also review the current framework when it receives the IMO's rule change functions in due course, but at this stage, there was no plan to change the current framework before then.

Action Point: AEMO to provide an overview of its stakeholder engagement process at the next MAC meeting.

AEMO

Closed: The Chair declared the meeting closed at 3:05pm.