



Minutes

MEETING TITLE Market Advisory Committee

MEETING NO 82

DATE Wednesday 22 July 2015

TIME 2:00 PM – 3:55 PM

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

Attendees	Class	Comment
Allan Dawson	Chair	
Erin Stone	Compulsory – IMO	
Dean Sharafi	Compulsory – System Management	
Matthew Cronin	Compulsory – Western Power	
Andrew Stevens	Compulsory – Generator	
Wendy Ng	Compulsory – Generator	
Shane Cremin	Compulsory – Generator	
Michael Zammit	Compulsory – Customer	
Geoff Gaston	Compulsory – Customer	
Tony Leahy	Compulsory – Customer	Proxy
Peter Huxtable	Discretionary – Contestable Customer	
Simon Middleton	Minister's Appointee – Observer	(2:00 PM – 3:25 PM)
Matthew Martin	Minister's Appointee – Small Use Consumer Representative	Proxy
Elizabeth Walters	Economic Regulation Authority (ERA) – Observer	

Apologies	Class	Comment
Steve Gould	Compulsory – Customer	Proxy attended
Ray Challen	Minister's Appointee – Small Use Consumer Representative	Proxy attended
Will Bargmann	Compulsory – Synergy	

Also in attendance	From	Comment
Lindsay Offer	Western Power	Presenter
Mike Davidson	Western Power	Observer

Also in attendance	From	Comment
Richard Wilson	EnerNOC	Observer (2:20 PM – 3:55 PM)
Mia Threnoworth	Synergy	Observer
Brad Huppatz	Synergy	Observer
Natalia Kostecki	Public Utilities Office (PUO)	Observer
Fiona Wiseman	Alinta Energy	Observer
Chris Campbell	Alinta Energy	Observer
Ignatius Chin	Bluewaters Power	Observer
Kang Chew	IMO	Presenter
Greg Ruthven	IMO	Observer
Mark Katsikandarakis	IMO	Observer
Martin Maticka	IMO	Observer
Marc Hettler	IMO	Observer
Caroline Cherry	IMO	Observer and Minutes

Item	Subject	Action
1.	<p>Welcome</p> <p>The Chair opened the meeting at 2:00 PM and welcomed all members to the 82nd 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"> • Steve Gould • Ray Challen • Will Bargmann <p>The following proxies were noted:</p> <ul style="list-style-type: none"> • Tony Leahy (for Steve Gould) • Matthew Martin (for Ray Challen) <p>The following presenters and observers were noted:</p> <ul style="list-style-type: none"> • Lindsay Offer (Presenter – Western Power) • Mike Davidson (Observer – Western Power) • Richard Wilson (Observer – EnerNOC) • Mia Threnoworth (Observer – Synergy) • Brad Huppatz (Observer – Synergy) • Natalia Kostecki (Observer – PUO) • Fiona Wiseman (Observer – Alinta Energy) • Chris Campbell (Observer – Alinta Energy) • Ignatius Chin (Observer – Bluewaters Power) 	

	<ul style="list-style-type: none"> • Kang Chew (Presenter – IMO) • Greg Ruthven (Observer – IMO) • Mark Katsikandarakis (Observer – IMO) • Martin Maticka (Observer – IMO) • Marc Hettler (Observer – IMO) • Caroline Cherry (Observer and Minutes – IMO) 	
3.	<p>Minutes of previous meeting</p> <p>The minutes of MAC meeting No. 81 held on 17 June 2015 were circulated to members prior to the meeting. The minutes were accepted as a true record of the meeting.</p> <p><i>Action Point: The IMO to publish the minutes of meeting No. 81 on the Market Web Site as final.</i></p>	IMO
4.	<p>Actions arising</p> <p>The Chair invited Ms Erin Stone to update the MAC on the current action items:</p> <ul style="list-style-type: none"> • Action Items 47 and 55: remained open. • Action Items 9 and 15: related to Rule Change Proposals and it was noted that these had been deferred. • Action Item 27: related to the costings and plan for the integration of System Management into the IMO, it was noted that the IMO would provide an update to the MAC when it could. • Action Item 28: related to the deferral of the five-yearly reviews, it was noted that this remained open and the IMO was preparing a paper for the Electricity Market Review (EMR) Steering Committee. • Action Item 29: related to an update on the deadband control and application of the Technical Rules, it was noted that this item was to be presented under Agenda Item 9 and therefore would be taken to be completed. 	
5.	<p>Overview of the Progression of Rule Change Proposals</p> <p>Ms Stone provided an update on the progression of the current Rule Change Proposals and noted the following:</p> <ul style="list-style-type: none"> • All Final Rule Change Reports had been completed and were now awaiting the establishment of the Rule Change Assessment Panel (RCAP) for consideration. • The IMO was progressing the Rule Change Proposal: Specific Transition Provisions for the 2015 Reserve Capacity Cycle (RC_2015_05), which is scheduled to be released on 7 August 2015. • The IMO was progressing the remaining four Draft Rule Change Reports to be formally considered for deferral by the IMO Board over the coming months. 	
6.	<p>Discussion: Electricity Market Review Update</p> <p>The Chair invited Mr Simon Middleton to provide an update on the progress of the EMR. The following key points were discussed:</p> <ul style="list-style-type: none"> • Mr Middleton noted that up until recently there had been a lack of engagement with industry during Phase 2 of the EMR. It was noted that an Energy Reference Group (ERG) had been established by the 	

Minister for Energy, and this group contained nine members. Mr Middleton noted that the Minister met with the ERG for the first time on 16 July 2015 to discuss the electricity market, how it currently operates, and how it should be operating. Mr Middleton also noted that a public forum on the EMR was to be held on 28 July 2015, at the State Library.

- Mr Middleton noted that a number of working groups had been set up for the various work streams of the EMR and that working group meetings were being held to discuss details for each of the relevant work streams.
- Mr Middleton stated that the EMR Program Management Office (PMO) understood that there were complexities to all of the reforms and subject matters and therefore the PMO had engaged numerous consultants (14 so far), to provide assistance. It was further noted that a lot of the work that would be undertaken by the consultants would more than likely flow through to the working groups for further consideration on a more detailed level.

Mr Middleton invited questions from the MAC members. The following points were discussed:

- Mr Michael Zammit queried whether the working groups would still be by invitation, as was described at the June MAC meeting, or if they would be more open and participative, and noted that this was an important feature of the IMO's consultation processes. Mr Middleton responded that the working groups would still be by invitation but that the PMO team would evolve the working groups to ensure the right expertise was available in order to progress those projects. Mr Middleton noted further that the PMO would be putting a paper to the next EMR Steering Committee meeting, regarding the approach that was to be adopted for working groups, and the EMR Steering Committee was to provide guidance on that model going forward. Mr Middleton clarified that there was a high level of pragmatism on what workable numbers are for a working group, but ultimately the EMR Steering Committee would make those decisions.
- Ms Wendy Ng queried how many working groups had been set up so far. Mr Middleton responded that a number of working groups had been set up for the Network Regulation work stream, the transfer of System Management to the IMO, and the Market Competition work stream. It was further noted that a working group would be set up for the Reserve Capacity Mechanism work stream, but this had not occurred yet. Mr Middleton further noted that the Energy Markets Operations and Processes work stream would not have a working group, but there would be a mechanism to enable engagement with the PMO team and the consultants.
- Mr Geoff Gaston queried whether there would be a working group for contestable metering. Mr Middleton responded that there had been discussions within the Market Competition working group as to whether there was a need for multiple working groups under this particular work stream. Mr Middleton further noted that it had been discussed whether there could be two sub-working groups; one to cover customer protections and the other to look after the retail market operations, which could include the contestable metering issues.

	<ul style="list-style-type: none"> • Mr Zammit asked how the new rule change process would be more transparent if the meetings of the new RCAP were closed. Mr Middleton responded that it would be more transparent as all documentation from those RCAP meetings would be made available publicly. Mr Middleton further noted that the RCAP should be able to meet with some privacy to discuss issues and make determinations, but the documentation that comes from those meetings would be made available to show the matters that were considered during those discussions and how decisions were agreed. The Chair suggested to defer discussion on this matter until Agenda Item 7. • Mr Middleton noted that the PMO was finalising a presentation for the public forum on 28 July 2015, and hoped to be able to make it available publicly after the event had taken place. 	
7.	<p>Position Paper – A Proposed Design for the new Rule Change Assessment Panel</p> <p>The Chair invited Mr Middleton and Dr Natalia Kosteci to provide an overview of the proposed design of the new RCAP.</p> <p>Mr Middleton noted that the position paper had been released for public consultation on 6 July 2015. Mr Middleton further noted that the PMO was not at the MAC meeting to defend the position paper, but noted that it was a proposal which feedback was being sought. Mr Middleton noted that some comments had already been circulated via email between MAC members and that discussion on the issues was good, but strongly urged each organisation to make its own formal submission to the process, as these would be considered by the PMO and the EMR Steering Committee.</p> <p>Mr Middleton took questions from the MAC members. The following points were discussed:</p> <ul style="list-style-type: none"> • Ms Ng asked for an explanation of the process going forward, providing an example question of whether there would be a second round of consultation. Mr Middleton responded that it was difficult to know at this point, there could be matters that would require clarification or further exploration, there could potentially be matters that would be brought to the MAC for consideration. Mr Middleton noted that the proposed changes would be considered on the basis of the weight of the responses to the position paper, and the opinions of the EMR Steering Committee and the Minister. • Mr Andrew Stevens asked if the ultimate decision maker was the Minister. Mr Middleton responded that the Minister was the ultimate decision maker in regards to the EMR. The EMR Steering Committee has been delegated responsibility to execute the EMR, but that the EMR Steering Committee would make recommendations to the Minister for consideration. • Mr Stevens questioned what the EMR Steering Committee's voting arrangements were in order to make decisions on the ultimate recommendations progressed to the Minister. The Chair noted that the RCAP recommendations may be the test case for this situation, but further noted that the EMR Steering Committee had not reached considerations of that nature yet. Mr Stevens questioned the extent to which the EMR Steering Committee would consider the submissions received, and further questioned who held the casting vote. The Chair responded that although he was not speaking on behalf of the 	

EMR Steering Committee, they would be remiss if they did not pay attention to the submissions received. The Chair urged the MAC members to engage in the process by providing submissions to the EMR Steering Committee to inform their decision making. Mr Middleton noted that in briefing the Minister on the recommendations, the nature of the consultations that had been undertaken and the diversity of the views that had been received through the submissions would also be included.

- The Chair questioned what role the MAC would have to play, especially as it was the working group for the RCAP project. Mr Middleton responded that there could be elements of the RCAP position paper that the EMR Steering Committee, on the basis of the submissions received, consider are contentious, or there could be opposing views, or technical elements that require further clarification. There could also be a need to clarify certain matters or even discuss cost and the practicality of potential changes.
- Mr Zammit queried what the role of the MAC would be going forward, noting that in the position paper the Chair of the MAC was to be replaced and there was a potential expansion to the role of the MAC proposed. Mr Zammit requested the PMO to provide an outline of its thoughts on this matter or the thinking behind the proposal. Mr Middleton responded that the position paper was a proposal seeking reflections on the MAC's role from industry and whether there could be an expanded role for the MAC, for example with regard to the Market Rules Evolution Program, in how initial rule changes and concepts are discussed and a potential mechanism for complaints which could be received through the MAC Chair.
- Mr Zammit commented that with a new structure for the RCAP and its secretariat, it was difficult to see a role for the MAC going forward. Mr Middleton responded that he did not agree, noting that while a different composition for the body who approves the rules had been proposed, and it was fair to say that the body would need the benefit of the MAC's input into the processes. Dr Kostecki added that in the position paper, the first round of the formal rule change consultation process would occur with the MAC.
- Ms Ng questioned the table contained in the position paper on page 10. Ms Ng noted that steps 8, 9 and 10 under the current rule change process was the type of consultative process that the MAC was currently involved in, prior to rule changes being developed; and that those steps did not seem to exist in the proposed process. Dr Kostecki noted that it did still exist, it had just been formalised as the first round of consultation. Dr Kostecki further noted that it was also proposed that every rule change proposal is submitted to MAC for formal consideration.
- Mr Shane Cremin noted that under the proposed rule change process, when a Rule Change Proposal goes to MAC it would be an official consultation. Mr Cremin further noted that the IMO, to its credit, as part of the current rule change process created a consultative process prior to the formalisation of a Rule Change Proposal. Under the current process, by the time a Rule Change Proposal was formalised it had been well discussed and Market Participants had a good understanding of the issues. Mr Cremin noted that this informal consultation improved the rule change process considerably, and that

by having that process become formalised it would more than likely take that aspect away. Dr Kostecki responded that it was a fair comment and that the PMO would appreciate if those types of comments were put into formal submissions to the position paper.

- Mr Cremin queried whether the proposal that was put forward in the position paper, from the PMO's perspective, was a 'strawman' that could be commented on or if it was a more concrete proposal. Mr Cremin noted that in the submissions to Phase 1 of the EMR there was a clear issue with the rule change process and acknowledged that this work was a response to that issue. Mr Cremin further noted that prior to the position paper being released, even the most cursory of consultations by the PMO would have shown that the proposed rule change process had now been captured by the PUO, and given that the PUO was an administrative arm of Government, the proposal would be worse than any potential capture by the IMO. Mr Cremin further noted that this was a process issue that could easily have been resolved. Dr Kostecki responded that the pool of available persons from which members of the RCAP could be drawn was small and there was always likely to be some form of conflict of interest. Dr Kostecki also noted that submissions to Phase 1 of the EMR had indicated that Market Participants were not happy with the IMO's full suite of functions and they wanted the IMO removed from at least one of those functions.
- Dr Kostecki stated that the EMR Steering Committee proposed a model which they thought was workable and was a low or no cost model, and reiterated that Market Participants should formalise their thoughts on whether the proposed model provided in the position paper just needed minor adjustments, or whether there were concerns that the proposed model created. Dr Kostecki clarified that this was not a complete and final model. Mr Cremin commented that there would always be pros and cons of each model. Dr Kostecki responded that the EMR Steering Committee would like stakeholders to articulate the expected costs associated any alternative models proposed in their submissions. Mr Middleton noted that if there were variations to the proposed model in submissions, the EMR Steering Committee would be seeking defensible reasons to support those variations.
- Mr Matthew Cronin noted that although the ERA and the IMO were doing a good job, there was a question as to whether the current framework was consistent with national policy and national best practice and whether there would be a benefit in changing the framework to be consistent with those national frameworks. The Chair noted that one of the issues in adopting a national framework was that in Western Australia (WA) there is a single State Government that owns a major part of the infrastructure and industry; unlike the governance structure in the National Electricity Market (NEM), which requires the agreement of the six states and the Commonwealth, and therefore is more able to balance competing interests. The Chair stated that care had to be taken to not go blindly down a national path without proper consideration of the differences between the governance frameworks and markets.
- Mr Stevens commented that it was not clear as to how the position paper managed to propose that the influence of the PUO was somehow less conflicted than the influence of the IMO in the

rule change process. Mr Stevens went on to note that in effect it was exchanging a small potential conflict of interest, which had no materiality, with an enormous and real conflict of interest. Mr Stevens further commented that there had been no proof or material evidence provided to support the proposed changes in the position paper. Mr Stevens said he understood that stakeholder submissions had raised these concerns, but also noted that the IMO was quite transparent and there had been no evidence provided to date with respect to the IMO's conflict. Mr Stevens further noted that the current process was better than what had been proposed in the position paper. Mr Stevens noted that there could perhaps be some minor adjustments to the current rule change process in order to separate the policy process from the rule change process but that a lot of work was being created for something that could be far more conflicted than the current arrangements.

- Mr Cremin agreed with Mr Stevens and further noted that submissions to Phase 1 of the EMR raised that there could be changes to improve the framework, but was not sure where the proposed model in the position paper had come from. Mr Middleton responded that the composition of the RCAP had brought to bear different viewpoints and a broader set of considerations, and requested stakeholders to provide their views to the PMO in the form of submissions.
- Mr Zammit asked how the PMO would give due consideration to the accountability of the RCAP, noting that he had seen a similar model in the NEM and while things go well it's a fine model, but when things go wrong it is difficult to work out who is accountable, what the issue is and who is responsible to make sure it does not occur. Mr Zammit reiterated the Chair's point that it would be difficult to make rule changes under the proposed model as there would not be the accountability that is provided under the NEM model, in having six other jurisdictions and the Commonwealth to counterbalance decisions. Mr Middleton noted that this raised a good point.
- Mr Peter Huxtable questioned the low or minimal cost perspective, and what the IMO would need to invest in the proposed rule change process in terms of resources. The Chair responded that the proposal would retain similar resources but be provided by the IMO under a Service Level Agreement (SLA). The Chair further noted that it would also depend on what the terms of the SLA were, what resources the secretariat would require, and whether other services were to be engaged as these would have an impact on the cost. The Chair further noted that the RCAP itself could request its own budget for such matters as consultants for advice. The Chair considered that those costs would be somewhat similar to the provisions for the IMO Board under the current rule change process. The Chair also noted that costs would also depend on whether the Executive Officer was appointed, as outlined in the position paper.
- Mr Huxtable also queried whether the ERA's costs to participate on the RCAP would already be reflected in its current cost recovery, or if the ERA would now recover these costs from Market Participants. The Chair responded that the ERA already recovered related costs for their market functions from Market Participants and imagined that any additional costs for the ERA to participate in this process would be recovered through this process.

	<ul style="list-style-type: none"> • Mr Zammit queried whether the work on the Wholesale Market Objectives was still ongoing and when stakeholders would be consulted. Mr Middleton responded that a paper with considerations to review the Wholesale Market Objectives was something that would be put to the Minister, but so far nothing had been decided. • Mr Tony Leahy queried what the process was if the RCAP was unhappy with the advice they received from the secretariat and whether the RCAP could seek advice from an alternative source, such as consultants. Mr Middleton responded that this would be a matter for the RCAP. Mr Huxtable asked what the budget allocation was for the RCAP. Mr Middleton responded that any powers that the IMO Board currently has to consider advice, would more than likely be extended to the RCAP. • Mr Zammit asked if the RCAP was the name that would be used for the new body. Mr Middleton noted that the name could also be considered in submissions as nothing had been decided. • The Chair urged the MAC members to make submissions to the EMR Steering Committee as part of the position paper process. The Chair further noted that the IMO would be happy to provide an overview of the current rule change process to anyone that might find it valuable. 	
8.	<p>Presentation: Margin Values</p> <p>The Chair introduced Mr Kang Chew to present an overview of the process and outcomes from the 2015 Margin Values Review. The following key points were discussed:</p> <ul style="list-style-type: none"> • Mr Chris Campbell queried whether the significant increase of the margin values for the 2015/16 period meant that Synergy had not recovered the full cost of Spinning Reserve Services (SRS) for the 2014/15 period. Mr Chew responded that it was difficult to back-cast the modelled opportunity costs against the actual costs. • Mr Stevens questioned whether the settled costs for SRS had ever reached \$25 million noting that the average settled costs for SRS was close to \$17 million. The MAC members discussed historical forecast and actual SRS payments and established that the forecasting accuracy for the annual SRS costs had improved significantly over the last four years. Therefore, it was generally noted that the estimated settled SRS costs for 2015/16 would likely be around \$25 million which was \$8 million above average. The Chair stated that the estimated costs of \$25 million could also be lower depending on the actual average Balancing Prices. • Mr Dean Sharafi stated that the margin values model was sensitive to input variables and inquired what the level of confidence was concerning these inputs. Mr Sharafi also noted that the estimated SRS costs for 2015/16 had increased by \$14 million compared to the previous year and asked whether it would be worth re-checking the consultant's work. Mr Chew explained that the accuracy of the model could only be determined after the settlement of the SRS costs had occurred. Mr Chew also noted that the IMO consulted with the ERA and performed in-house checks regarding the accuracy of the model. Mr Mark Katsikandarakis clarified that the IMO held a public consultation period in which Market Participants had the opportunity to 	

	<p>provide input data for the model and feedback regarding the underlying assumptions of the model.</p> <ul style="list-style-type: none"> Mr Sharafi inquired whether the IMO received a lot of feedback during the public consultation period. Mr Chew responded that the IMO received one formal submission regarding the margin values model. Mr Brad Huppatz added that 13 Market Generators had provided input data to configure the model. The Chair emphasised that the Margin Values Review was a Market Rule requirement. The Chair further noted that it was inherently difficult and suboptimal to estimate the SRS costs using a theoretical mathematical model which depended on assumptions. The Chair stated that it would be the IMO's preference to implement a competitive, co-optimised energy and Ancillary Services market; as was being considered through the EMR, rather than relying on the current administered pricing arrangements. <p><i>Action Point: The IMO to publish the presentation on the Margin Values Review on the Market Web Site.</i></p>	IMO
9.	<p>Presentation: Deadband control and the application of the Technical Rules</p> <p>The Chair invited Mr Lindsay Offer from Western Power to present on deadband control and the application of the Technical Rules. The following key points were discussed:</p> <ul style="list-style-type: none"> Mr Offer noted that the next steps for Western Power were to share what they had found regarding Wholesale Electricity Market (WEM) Facilities' compliance with deadband control settings in the Technical Rules with the MAC and to keep negotiating with Market Participants in order to obtain the consistent deadband settings across all Facilities. Mr Offer also noted that a minor issue had been identified in the Technical Rules, as it states the settings should be less than 50 mHz (which is 0.05 Hz) as a deadband setting, which is currently operating on a difference of +/- 0.01 Hz in the settings. The Technical Rules should be changed to: must not exceed 50 mHz with +/- 0.025 Hz as this takes out the error related to the precision of the controller. Mr Greg Ruthven noted that there were around 30 Facilities in the WEM. Mr Offer replied that the Facilities used for this purpose did not directly relate to WEM Facilities, for example Muja had been counted as one Facility. Mr Stevens asked which 11 Facilities were tested. Mr Offer replied that Western Power had identified the most significant contributors first. Mr Campbell queried what would happen if all Facilities did not comply with the settings. Mr Offer responded that at the moment Market Participants were making every effort in order to meet those obligations; but that Western Power would be in a much better position towards the end of the year to know if this would be met. Mr Stevens asked if it was determined whether all Facilities were operating the deadband control at +/- 0.05 Hz or better. Mr Offer responded that some were operating at less than +/- 0.05 Hz. Mr Stevens noted that if Western Power was going to narrow the deadband frequency it would need to show what the benefit of this was. The Chair agreed that Western Power would need to assess any 	

	<p>changes to the frequency on a cost basis. Mr Stevens noted that there didn't appear to be an issue with the system operating fine at +/-0.05 Hz and that a change to +/-0.025 Hz didn't seem justified unless there was an expectation of other savings such as the a decrease in the level Load Following Ancillary Services.</p> <ul style="list-style-type: none"> The Chair queried how Facilities were monitored to keep the deadband control on at the right setting. Mr Stevens responded that System Management could see if a Facility responded to a dispatch instruction or not, and how long the response took. <p><i>Action Point: The IMO to publish Western Power's presentation on deadband control and the application of the Technical Rules on the Market Web Site.</i></p>	IMO
10.	<p>Working Groups</p> <p>Ms Stone noted that there were no changes to the Working Groups and that no meetings had been held since the June MAC meeting. The Chair clarified that no Working Group meetings were currently scheduled.</p>	
11.	<p>General business</p> <p>Mr Cronin noted that Western Power may submit a Rule Change Proposal in the future for consideration regarding the dispatch of Facilities in Competing Application Groups.</p> <p>Mr Zammit noted he would not be able to attend the next two MAC meetings.</p>	
CLOSED: The Chair declared the meeting closed at 3:55 PM.		