



## Minutes

<b>MEETING TITLE</b>	Market Advisory Committee
<b>MEETING NO</b>	88
<b>DATE</b>	Wednesday 24 February 2016
<b>TIME</b>	2:05pm – 3:10pm
<b>LOCATION</b>	Board Room, Level 17, 197 St Georges Terrace, Perth

Attendees	Class	Comment
Kylie O’Keeffe	Chair - IMO	
Martin Maticka	Compulsory – AEMO	
Matthew Cronin	Compulsory – Western Power	
Simon Middleton	Minister’s Appointee – Observer	
Geoff Gaston	Discretionary – Customer	
Steve Gould	Discretionary – Customer	
Andrew Stevens	Discretionary – Generator	
Wendy Ng	Discretionary – Generator	
Geoff Down	Discretionary – Contestable Customer	Proxy
Julian Fairhall	Economic Regulation Authority (ERA) – Observer	Proxy

Apologies	Class	Comment
Dean Sharafi	Compulsory – System Management	
Will Bargmann	Compulsory – Synergy	
Ray Challen	Minister’s Appointee – Small Use Consumer Representative	
Michael Zammit	Discretionary – Customer	
Shane Cremin	Discretionary – Generator	
Peter Huxtable	Discretionary – Contestable Customer Representative	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
Jenny Laidlaw	IMO	Observer
Laura Koziol	IMO	Observer and Minutes

Item	Subject	Action
1.	<p><b>Welcome</b></p> <p>The Chair opened the meeting at 2:05pm and welcomed all members to meeting number 88 of the Market Advisory Committee (MAC).</p> <p>The Chair noted that since the last meeting the following changes had been made to the composition of the MAC as a result of the transfer of most of the IMO's functions to the Australian Energy Market Operator (AEMO) on 30 November 2015:</p> <ul style="list-style-type: none"> <li>one new compulsory class position had been created for AEMO, and AEMO had nominated Martin Maticka as its representative; and</li> <li>apart from chairing the meetings, the IMO no longer has a separate representative on the MAC.</li> </ul> <p>The Chair noted that this was the first MAC meeting since Mr Allan Dawson had officially stepped down as the Chair of the MAC and acknowledged Mr Dawson's contribution to the MAC over the past seven years.</p>	
2.	<p><b>Meeting apologies/attendance</b></p> <p>The following apologies were received:</p> <ul style="list-style-type: none"> <li>Dean Sharafi</li> <li>Will Bargmann</li> <li>Ray Challen</li> <li>Michael Zammit</li> <li>Shane Cremin</li> <li>Peter Huxtable</li> <li>Elizabeth Walters</li> </ul> <p>The following proxies were noted:</p> <ul style="list-style-type: none"> <li>Geoff Down</li> <li>Julian Fairhall</li> </ul> <p>The following presenters/observers were noted:</p> <ul style="list-style-type: none"> <li>John Rhodes (Observer – Alinta Energy)</li> <li>Ignatius Chin (Observer – Bluewaters Power)</li> <li>Jenny Laidlaw (Observer – IMO)</li> <li>Laura Koziol (Observer and Minutes – IMO)</li> </ul>	

<p>3.</p>	<p><b>Actions arising</b></p> <p>The Chair noted that:</p> <ul style="list-style-type: none"> <li>• <b>Actions 47, 9 and 15</b> relate to progressing Rule Change Proposals and have therefore been deferred.</li> </ul> <p>The Chair noted that as the content of the Rule Changes related to operational matters it may be more appropriate for the actions to be assigned to AEMO. The Chair will raise the matter with AEMO before the next meeting.</p> <ul style="list-style-type: none"> <li>• <b>Action 28</b> relates to the deferral of the five-yearly review of the Outage Planning Process and the five-yearly review of the Market Procedure for determining the Maximum Reserve Capacity Price.</li> </ul> <p>The Chair noted that, in the 30 November 2015 rule changes, these reviews were deferred such that the IMO is not required to conduct them before 31 October 2017. The Chair closed the action on that basis.</p> <p><i>Action Point: The IMO to engage with AEMO to determine if the open actions should be assigned to AEMO.</i></p>	<p>IMO</p>
<p>4.</p>	<p><b>Discussion: Electricity Market Review update</b></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 noted or discussed.</p> <p><u>Reserve Capacity Mechanism</u></p> <ul style="list-style-type: none"> <li>• Mr Middleton advised that a summary paper outlining the final design of the reforms to the Reserve Capacity Mechanism (RCM) and an exposure draft of the respective Amending Rules are planned to be released late March 2016. The Amending Rules will address issues raised in the submissions on the last position paper in particular regarding the risk of volatile capacity prices and possible incentives to withhold Capacity Credits. A four week consultation period is planned for the Amending Rules. Feedback will be sought in terms of quality assurance but consultation on the policy and design fundamentals is completed.</li> <li>• Mr Middleton noted that it was possible that the 2016 Reserve Capacity Cycle would be deferred by one month.</li> </ul> <p><u>Rule Change Panel</u></p> <ul style="list-style-type: none"> <li>• Mr Middleton advised that a draft of the drafting instructions for the implementation of the Rule Change Panel (Panel) has been completed. A position paper regarding the selection criteria of the Panel will be published soon for public consultation and the outcome of the consultation will be incorporated in the drafting instructions. The Panel is planned to be in legal existence in the middle of 2016 and operational by the end of 2016.</li> </ul> <p><u>Network Regulation</u></p> <ul style="list-style-type: none"> <li>• Mr Middleton noted that the Application Act must pass the Western Australia Parliament before November 2016, so a draft of the Application Act is planned to be provided to the COAG Energy Council in March 2016 so it can be given to Parliament in June 2016.</li> </ul>	

The overall timeline for this project is on schedule but on a critical path allowing for no delays and resulting in tight timeframes for stakeholder engagement.

- Mr Middleton noted that, the Steering Committee is engaging with Western Power regarding the challenges this reform places on Western Power and a number of position papers are planned to be published soon. The papers will address the following:
  - which regulatory framework will apply when the current access arrangements expire in 2017 while the first regulatory control period for the Australian Energy Regulator commences on 1 July 2018;
  - regulation during the first regulatory control period; and
  - regulation of gas transport.
- Ms Wendy Ng queried if the handling of existing Electricity Transfer Access Contracts would be addressed in any of the position papers. Mr Middleton confirmed that the papers would address this issue and noted that an industry briefing for the discussion of the position papers was planned to be held.
- Mr Middleton further noted that the application of a constrained network access model would extinguish any existing rights for firm access. Ms Ng queried how that would affect the RCM. Mr Middleton said that he expected that the next cycle would be deferred and that a model estimating the impact of the constrained access on the RCM was currently being designed. Mr Middleton further noted that it was considered to change the reference node from the current generation centre to a consumption centre which would also change the constraint equations. Mr Andrew Stevens queried if the modelling of the constraints would be shared with stakeholders and noted that this could be very valuable for Market Participants. Mr Middleton confirmed that this was under consideration and recognised that stakeholders would need sufficient information to engage in meaningful discussions. Mr Middleton explained that the modelling, for which the EMR had contracted Ernst and Young, was undertaken on a power station level, considering different scenarios and showing implications of constraints on power plants. Mr Middleton further noted that the high-level assessment of the model outcomes showed that the incidence of constraints was currently very low and that the impact of constraints would only become material under extreme growth scenarios for consumption and renewable energies.
- Mr Geoff Gaston sought clarification on how the risk of increased volatility of the Reserve Capacity Price would be addressed. Mr Middleton advised that this would be explained in the RCM paper which would be published soon.
- Mr Middleton noted that many items were attached to the Application Act such as the reliability and security functions as well as the retail market operator functions which were likely to be transferred from Western Power to AEMO before the commencement of the first regulatory control period. Mr Middleton emphasised that the Application Act for which the timeframes only allowed for limited stakeholder consultation was a high-level legislation and that the

detail of the reforms would be implemented through regulations under more extensive stakeholder consultation.

#### Reliability Panel

- Mr Middleton advised that a paper regarding the implementation of the Western Australian reliability and security regime under the national electricity framework will be released soon. The paper will propose that the reliability functions are transferred to the ERA (with the obligation to consult with a reliability advisory committee of experts) and outline the design for the reliability panel and the advisory committee.
- Mr Ignatius Chin asked what the expected timeline would be for the implementation of a reliability panel. Mr Middleton indicated that the timeline was dependent on the stakeholder feedback on the paper.

#### Project Coordination and Risk Mitigation

- Mr Middleton advised that the Steering Committee has engaged Future Effect to undertake an end-to-end review mapping the rule changes resulting from the various EMR reform projects. This project will also involve the IMO, various legal advisors and the EMR project teams for the purpose of quality assurance. He said that the EMR also planned to publish exposure drafts of amending rules for public consultation as they progress.

#### Wholesale Electricity Market Objectives

- Mr Middleton noted that the EMR intends to reform the WEM Objectives by replacing them with the National Energy Objective which will already be adopted for the network by applying the national framework to the network. Due to the higher priority of other reforms currently under consultation, Mr Middleton suggested that the planned position paper regarding this reform will be published at a later time.

#### Energy Market Operations and Processes

- Mr Middleton confirmed that a position paper regarding the reforms to the WEM will be published soon.
- Ms Ng asked if all reforms in this project would be implemented on the same date. Mr Middleton confirmed that the reforms needed to be implemented by 1 July 2018 but that some reforms could possibly be implemented earlier. Ms Jenny Laidlaw noted that some of the reforms could be staged and that stakeholder feedback would be sought regarding the costs and benefits of any staging.
- Ms Ng asked if the assessment of which constrained grid model was to be implemented for Western Australia would be driven by the option to leverage from the AEMO IT-systems. Ms Laidlaw indicated that the costs and benefits of the different possible tools to implement the different reforms would be considered. Mr Middleton noted that implementation costs were an important driver for the selection of the constrained grid model and that the AEMO model provided a well-tested framework and that, while other alternatives would still be considered, there were so far no reasons found why the AEMO system should not be adopted. Ms Laidlaw emphasised that the position paper would specifically ask for feedback regarding the pros and cons of the different options to implement a constrained grid model for Western Australia.

	<p><u>Competition</u></p> <ul style="list-style-type: none"> <li>Mr Middleton noted that the Steering Committee held a workshop to discuss the possible scope and timeline of a retail sector reform package. The Steering Committee will seek the Minister's feedback on a high-level reform package and information regarding the proposed reforms is planned to be published mid-2016. The respective legislation will not pass Parliament before the next election.</li> <li>Ms Ng queried if it was possible that the timeline for commencing the reforms to the retail market would be earlier than the originally proposed commencement date of 1 July 2018. Mr Middleton clarified that 1 July 2018 was not the proposed commencement date but the earliest possible date for the commencement of full retail contestability and that the actual commencement date would depend on the form of the reform. Mr Middleton noted that sufficient time had to be allowed for Market Participants to implement the necessary changes once legislation has passed and that it was possible that more than one year would be needed for implementation. Mr Middleton further noted that legislation was expected to pass Parliament late 2017.</li> </ul> <p><u>General EMR</u></p> <ul style="list-style-type: none"> <li>Mr Middleton apologised for the constraints in the review timeframes and noted that appropriate consultation had been undertaken even though in some areas more consultation would have been favourable.</li> <li>Ms Ng asked if there was any public education planned for stakeholders affected by the reforms. Mr Middleton confirmed that this was not within the scope of the EMR and that Market Participants would need to educate their stakeholders.</li> </ul>	
5.	<p><b>General business</b></p> <ul style="list-style-type: none"> <li>Mr Matthew Cronin noted that Western Power has recently addressed tariff reform in preparation for moving to the new framework, and had therefore just announced a new productivity scheme which would result in reduced network charges. Mr Gaston asked if Market Generators would stop paying network charges. Mr Cronin advised that the generator network charge did not exist under the national rules and was therefore likely to be abolished. Mr Middleton noted that this would need to be reflected in the calculation of the Reserve Capacity Price.</li> <li>The Chair noted that under the Market Rules, the MAC constitution and appointment guidelines are required to be consistent with rules. Therefore, the IMO is proposing amendments to those documents to reflect the rule changes in November last year that affected the composition of the MAC and to address some other minor changes.</li> <li>The IMO will publish the proposed amended MAC constitution and appointment guidelines soon for public consultation. The submission window will be 2 weeks.</li> </ul>	
<p><b>Closed:</b> The Chair declared the meeting closed at 3:10pm.</p>		