

Minutes

Meeting Title:	Market Advisory Committee (MAC)
Date:	28 July 2020
Time:	9:30 AM – 10:35 AM
Location:	Online via Microsoft Teams

Attendees¹	Class	Comment
Stephen Eliot	Chair	
Matthew Martin	Small-Use Consumer Representative	
Martin Maticka	Australian Energy Market Operator (AEMO)	
Dean Sharafi	System Management	
Sara O'Connor	Economic Regulation Authority (ERA) Observer	
Kate Ryan	Minister's Appointee – Observer	
Andrew Everett	Synergy	
Kei Sukmadjaja	Network Operator	Proxy for Zahra Jabiri
Jacinda Papps	Market Generators	
Wendy Ng	Market Generators	
Tom Froad	Market Generators	
Daniel Kurz	Market Generators	
Patrick Peake	Market Customers	
Geoff Gaston	Market Customers	
Timothy Edwards	Market Customers	
Peter Huxtable	Contestable Customers	

Also in Attendance	From	Comment
Jai Thomas	Energy Transformation Implementation Unit (ETIU)	Presenter To 10:00 AM
Andrew Rayner	Energy Policy WA (EPWA)	Presenter
Jenny Laidlaw	RCP Support	Minutes

¹ Some members were unable to attend the full meeting due to technical issues.

Also in Attendance	From	Comment
Erin Stone	Point Global	Observer
Laura Koziol	RCP Support	Observer
Natalie Robins	RCP Support	Observer
Sandra Ng Wing Lit	RCP Support	Observer
Adnan Hayat	RCP Support	Observer
Noel Schubert		Observer
Tim McLeod	Amanda Energy	Observer
Dimitri Lorenzo	Bluewaters Energy	Observer From 9:45 AM
Madelin Pow	EPWA	Observer 9:45 – 10:25 AM
Rebecca White	ETIU	Observer
Richard Beverley	Alinta	Observer 9:55 – 10:20 AM
Chris McDonagh	Alinta	Observer From 9:55 AM
Elizabeth Walters	ERA	Observer
Rajat Sarawat	ERA	Observer
Richard Cheng	ERA	Observer
Shibli Khan	ERA	Observer
Matt Shahnazari	ERA	Observer

Apologies	From	Comment
Zahra Jabiri	Network Operator	

Item	Subject	Action
1	Welcome	
	The Chair opened the meeting at 9:30 AM and welcomed members and observers to the 28 July 2020 MAC meeting.	
2	Meeting Apologies/Attendance	
	The Chair noted the attendance as listed above.	

Item	Subject	Action
3	Minutes of Meeting 2020_06_16	
	Draft minutes of the MAC meeting held on 16 June 2020 were circulated on 9 July 2020.	
	The MAC accepted the minutes as a true and accurate record of the meeting.	
	Action: RCP Support to publish the minutes of the 16 June 2020 MAC meeting on the Rule Change Panel’s (Panel) website as final.	RCP Support
4	Action Items	
	The closed action items were taken as read.	
	Action 27/2019: Open.	
	Action 28/2019: Open.	
	Action 13/2020: The Chair noted that the Panel had discussed the issue raised by AEMO at the 16 June 2020 MAC meeting about the application of Loss Factors to Balancing Submission prices. The Panel agreed that the issue raised by AEMO was a manifest error in the Market Rules and that RCP Support should develop a fast track Rule Change Proposal to address the manifest error. The Panel had assigned a Medium urgency rating to the issue.	
	The Chair noted that RCP Support had twice met with AEMO regarding options to address the matter.	
	Ms Jenny Laidlaw considered that an ideal arrangement would be to allow all Market Generators to offer Loss Factor Adjusted Prices in the Balancing Merit Order (BMO) over the full range between the Price Caps, and to retain the use of ‘MIN’ and ‘MAX’ offer prices. The Wholesale Electricity Market System (WEMS) supports this ideal arrangement with one exception – that a Balancing Facility with a Loss Factor greater than 1 cannot offer Loss Factor Adjusted Prices in two ranges, one just above the Minimum STEM Price, and the other just below the applicable maximum Price Cap.	
	For example, NewGen Kwinana, with a Loss Factor of 1.022, could not offer Loss Factor Adjusted Prices between -\$999.99 and -\$978.47. Ms Laidlaw noted that the most extreme restriction was for the Denmark Wind Farm, which could not offer Loss Factor Adjusted Prices between -\$999.99 and -\$744.44.	
	Ms Laidlaw noted that in the eight years since the start of the Balancing Market, Market Generators had raised no concerns at	

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	<p>the MAC about restrictions on the Loss Factor Adjusted Prices that they could offer into the BMO.</p> <p>Ms Laidlaw noted that the changes proposed by AEMO at the 16 June 2020 meeting would deliver the ideal arrangements but would involve some material IT costs. RCP Support considered that an alternative option would be to amend the Market Rules to match the current arrangements. AEMO had advised that this alternative option would require a minor change to the new Outstanding Amount calculation but would be lower cost than implementing the ideal arrangements.</p> <p>The Chair noted that, while the second option was lower cost, Market Generators with a Loss Factor greater than 1 would remain unable to offer Loss Factor Adjusted Prices across the full range between the Price Caps. RCP Support was therefore seeking feedback from Market Generators on whether it would be appropriate or useful for them to offer Loss Factor Adjusted Prices in the ranges that were currently restricted.</p> <p>Ms Wendy Ng asked how the proposed solutions affected bidding into the LFAS Market. Ms Laidlaw and the Chair clarified that both options would continue to allow Market Generators who were cleared for LFAS to offer capacity with Loss Factor Adjusted Prices at the Price Caps.</p> <p>Mr Daniel Kurz advised that he intended to provide RCP Support with a response from Bluewaters after consulting internally.</p> <p>Mr Andrew Everett asked whether the change of Reference Node from Muja to Southern Terminal would significantly increase the number of generators with a Loss Factor greater than 1. The Chair noted that the restricted bidding range problem would be resolved by the new market implementation at the same time that the Reference Node was moved.</p> <p>Ms Rebecca White added that ETIU expected Loss Factors to decrease on average rather than increase with the change of Reference Node to Southern Terminal. Ms White noted that the Foundation Market Parameters Information Paper published by the Energy Transformation Taskforce (Taskforce) (https://www.wa.gov.au/sites/default/files/2019-08/Information-Paper-Foundation-Market-Parameters.pdf) included provisional Loss Factors that were determined using Southern Terminal as the Reference Node.</p> <p>In response to a question from Mr Timothy Edwards, the Chair confirmed that feedback should be sent to RCP Support at Support@rcpwa.com.au. The Chair asked Market Generators to</p>	

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	provide their feedback within a week, but to inform him if this timeframe was too short.	
	<p>Action: MAC members with Balancing Facilities that have a Loss Factor greater than 1 to provide feedback to RCP Support on whether there are any circumstances where a Market Generator with a Loss Factor greater than 1 would want to or need to submit a Loss Factor Adjusted Price (within the Price Caps) that is it currently unable to submit into the BMO.</p>	MAC
5	<p>MAC Market Rules Issues List (Issues List) Update</p> <p>The MAC noted that no updates had been made to the Issues List since the 16 June 2020 MAC meeting.</p>	
6	<p>Update on the Energy Transformation Strategy (ETS)</p> <p>Mr Jai Thomas provided the following updates on the ETS.</p> <ul style="list-style-type: none"> • The Taskforce held its seventh meeting on 24 July 2020. The meeting focussed on developments in the Market Rules and the Whole of System Plan (WOSP). <p>The Taskforce also considered some draft roles and responsibilities in the Distributed Energy Resources space around the Distribution System Operator, Distribution Market Operator and Aggregator roles. ETIU hoped to publish an issues paper in the next two weeks, and to engage with the sector on the issues paper in the subsequent two weeks.</p> <ul style="list-style-type: none"> • The Taskforce published Tranche 1 of the draft Amending Rules for the new Wholesale Electricity Market (WEM) on 24 July 2020. ETIU intended to hold six meetings of the Transformation Design and Operation Working Group (TDOWG) between 29 July 2020 and the end of August 2020 to work through the detail of the drafting. • An industry forum on the WOSP was scheduled for 31 July 2020. The forum would focus on the preliminary outcomes of the WOSP modelling, recognising that the WOSP was scheduled to be provided to the Minister in early September 2020. The WOSP would need to go through a Cabinet approval process before the Minister released it publicly. <p>The forum would give stakeholders some early insight as to the findings that were coming out of the modelling and give the sector the opportunity to ask questions about the outcomes of the four modelling scenarios.</p>	

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	<ul style="list-style-type: none"> The Taskforce released a paper in July 2020 on battery storage integration into the Reserve Capacity Mechanism (RCM) and held a TDOWG meeting on 23 July 2020 to cover some of the detail of that paper. ETIU was working through some good feedback received at the TDOWG meeting and intended to provide a further update to the sector in the coming weeks. Consultation on the proposed changes to the Electricity Networks Access Code (Access Code) closed on 26 June 2020 and the public submissions were now published on the EPWA website. The Taskforce discussed the submissions at its 24 July 2020 meeting. ETIU intended to publish a paper that summarised the feedback received and how ETIU and the Taskforce had incorporated that feedback into what would be the final Access Code changes in this process, recognising that another round of Access Code changes was required later in the year relating to implementing constrained network access and updating instruments such as the applications and queueing policy. 	
	<p>In response to a question from Mr Patrick Peake, Mr Thomas advised that ETIU proposed to present the Access Code feedback paper to the 21 August 2020 Taskforce meeting, and to release the paper within a week of that meeting.</p>	

7 **AEMO Procedure Change Working Group (APCWG) Update**

Mr Martin Maticka provided the following updates on AEMO's Market Procedures:

- The Procedure Change Report for the changes required for the Reduction of Prudential Exposure project (AEPC_2020_06) was due to be published in the near future.
- AEMO held an APCWG meeting on 23 July 2020 to discuss changes to the Market Procedure: Declaration of Bilateral Trades and the Reserve Capacity Auction. Most of the proposed changes were consequential to the RCM pricing reforms, but AEMO had also taken the opportunity to make some other improvements to the Market Procedure. AEMO expected to publish the Procedure Change Proposal in August 2020.
- AEMO intended to hold an APCWG meeting to discuss consequential changes to the Market Procedure: Settlements arising from Rule Change Proposal: Administrative Improvements to Settlements (RC_2019_04).

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8(a)	<p>Overview of Rule Change Proposals</p> <p>The paper for agenda item 8(a) was taken as read. The Chair provided the following updates:</p> <ul style="list-style-type: none"> • The Amending Rules for the following Rule Change Proposals had commenced since the 16 June 2020 MAC meeting: <ul style="list-style-type: none"> ○ ERA access to market information and SRMC investigation process (RC_2018_05); ○ Administrative Improvements to Settlements (RC_2019_04); and ○ Estimates for GIA Facilities (RC_2020_03). • The Panel published the Final Rule Change Report for Rule Change Proposal: Implementation of 30-Minute Balancing Gate Closure (RC_2017_02) on 21 July 2020. • The Final Rule Change Report for Rule Change Proposal: Amending the Minimum STEM Price definition and determination (RC_2019_05) was due to be published on 31 July 2020. 	
8(b)	<p>Market Rule Change related to Defining SRMC</p> <p>Mr Andrew Rayner gave a presentation on some Market Rule changes that EPWA intended to recommend to the Minister to:</p> <ul style="list-style-type: none"> • clarify the short run marginal cost (SRMC) concept in the Market Rules by inserting a definition; and • clarify related market power mitigation processes. <p>A copy of EPWA's presentation is available on the Panel's website.</p> <p>Mr Rayner advised that EPWA intended to publish a directions report containing the proposed rule changes, along with the Brattle Group report for consideration, before advising the Minister and inviting him to consider making the recommended rule changes.</p> <p>The following points were discussed:</p> <ul style="list-style-type: none"> • In response to a question from Mrs Jacinda Papps, Mr Rayner and the Chair confirmed that a copy of EPWA's presentation would be published on the Panel's website within the next two days. • After some discussion, Mr Rayner clarified that EPWA was initially seeking feedback on the presentation rather than the directions paper, either at the meeting or by email to EPWA by the end of the week. Mr Everett expressed 	

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	<p>concern that stakeholders would have only limited time between the publication of the presentation and the deadline for comments.</p>	
	<ul style="list-style-type: none"> • Mr Maticka asked whether the submissions to EPWA would be made public. Mr Rayner replied that EPWA's standard practice was to publish submissions unless a submission indicated that it should be treated as confidential. Mr Rayner considered that it might depend on stakeholder's views whether EPWA should work through a process to formally publish submissions received on the presentation. • Mr Peake expressed concern that stakeholders would not be able to review the Brattle Group report. Mr Peake noted the complexity of the issues surrounding SRMC determination and questioned how the Brattle Group and EPWA proposed to address some of these issues (e.g. the determination of SRMC for a battery). 	
	<p>Mr Peake noted that he would prefer to review the Brattle Group report in detail and provide feedback on that report and the directions paper before any recommendations were made to the Minister.</p>	
	<p>Ms Kate Ryan noted that EPWA was conducting a much more thorough review of all the market power mitigation measures as part of the Foundation Regulatory Frameworks work stream of the ETS. The purpose of the work presented by Mr Rayner was to make some simple clarity improvements to the current market power mitigation approach to apply for the next one to two years, with the intent of conducting a more comprehensive review as part of the ETS.</p>	
	<p>Mr Peake acknowledged Ms Ryan's advice but considered that issues already existed around SRMC and how it was interpreted by the ERA and others. Mr Peake reiterated his request to review and provide feedback on the Brattle Group report. Mrs Papps and Ms Ng agreed with Mr Peake. Ms Ryan committed EPWA to share what it could with stakeholders.</p>	
	<ul style="list-style-type: none"> • Mr Noel Schubert considered that the proposed SRMC definition seemed to rely on effective competition in situations where there was no effective competition. Mr Schubert questioned what would stop a Market Generator with market power due to the absence of competition from bidding excessive prices (i.e. bidding as if it did not have market power). 	

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	<p>Mr Rayner replied that the definition of SRMC as applied in the Market Rules had been and would continue to be a theoretical concept. The definition assumed an assessment of a theoretical generator that was subject to competitive restraint and how it would structure its offers.</p> <ul style="list-style-type: none"> The Chair confirmed that RCP Support would publish the presentation slides as soon as it received them, and offered to also publish the Brattle Group report. 	
	<p>Action: EPWA to provide, and RCP Support to publish the slide pack from EPWA's presentation to the 28 July 2020 MAC meeting on Market Rule changes to clarify SRMC bidding obligations.</p>	<p>EPWA/ RCP Support</p>

8(c) RC_2020_05: Incentivising Generator Performance – Discussion of Pre-Rule Change Proposal

The Chair noted that the subject of Perth Energy's Pre-Rule Change Proposal: Incentivising Generator Performance (RC_2020_05) had some overlap with the ERA's 2020 review of incentives to improve the availability of generators (**ERA review**), and that some of the issues raised in RC_2020_05 overlap with the Network Access Quantity (**NAQ**) framework proposed by the ETS.

The Chair invited Mr Peake to comment on the Pre-Rule Change Proposal. Mr Peake raised four points:

- Under the current market arrangements, if a generator lost Capacity Credits because of poor performance, it could recover those Capacity Credits in future Capacity Years. However, under the proposed NAQ regime, Capacity Credits taken from a generator could be lost permanently through reassignment to other generators. Mr Peake considered that bankers and other investors would see the risk that excess maintenance outages could lead to permanent loss of some or even all capacity revenue, making them very reluctant to invest.
- There were no criteria as to how AEMO should determine whether the level of Certified Reserve Capacity should be reduced under clause 4.11.1(h), and if so by how much. Investors may see this as an unpredictable and arbitrary action, which would further dissuade them from investing.
- Generators already had strong incentives to avoid excessive scheduled maintenance (i.e. they lose money in any Trading Interval in which they are not scheduled to run) and unscheduled maintenance outages (i.e. because of the exposure to Capacity Cost Refunds).

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	<ul style="list-style-type: none"> All generators are required to undergo a regular review of their asset management systems. While the minimum interval for these reviews is two years, the ERA had extended the interval for most of the SWIS generating fleet to three to five years, which indicated that the maintenance practices of SWIS generators were generally of a high standard. 	
	<p>Mr Peake considered that clause 4.11.1(h) should be removed because it did not improve generator performance and, under the proposed NAQ regime, would place the economical and reliable supply of electricity in the SWIS at risk.</p>	
	<p>The Chair sought Ms Sara O'Connor's view of the Pre-Rule Change Proposal. Ms O'Connor noted that the ERA Secretariat was currently preparing a draft report for the ERA review, for consideration by the ERA Board in mid-August 2020 and likely publication by late August to early September 2020.</p>	
	<p>Ms O'Connor advised that the ERA was considering the purpose of clause 4.11.1(h) and options for presentation in the draft report, which included removing clause 4.11.1(h) or providing additional guidance to AEMO to help it to apply the rule transparently.</p>	
	<p>Ms O'Connor suggested that Mr Peake delay submission of RC_2020_05 until the ERA publishes its draft report for consultation. Mr Peake agreed with Ms O'Connor's suggestion, noting that Perth Energy had, to some extent, developed RC_2020_05 as a means of sharing its thoughts on the issue with the ERA.</p>	
	<p>The Chair sought advice from ETIU as to whether the issue raised by Perth Energy was being considered as part of the development of the NAQ framework. Ms Ryan offered to take the question on notice, but suspected the answer would be no because ETIU was trying to focus on introducing the NAQ framework and not extend the scope of its work more than necessary.</p>	
	<p>Mr Kurz agreed with Mr Peake that numerous incentives already existed for a generator to be available as much as possible. The risk of a permanent loss of Capacity Credits was an additional and unhedgeable burden on Market Generators.</p>	
	<p>In response to a question from the Chair, Mr Peake confirmed that Perth Energy intended to wait on ETIU's advice and the ERA's draft report before taking any further action on RC_2020_05. Mr Peake agreed with the Chair that there was no need to discuss an urgency rating for the Rule Change Proposal at that time.</p>	

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	<p>Ms Ng agreed with the comments made by Mr Peake and Mr Kurz, noting that ERM Power had previously raised concerns with ETIU about the NAQ process and the loss of Capacity Credits, but had not yet received clarity on the issue.</p>	
	<p>Action: ETIU to advise the MAC whether the issues raised by Perth Energy in Pre-Rule Change Proposal: Incentivising Generator Performance (RC_2020_05) were being considered by the ETS as part of the reforms being developed to implement the NAQ framework.</p>	ETIU
9	<p>BRCP Working Group – Approval of the Terms of Reference</p>	
	<p>The MAC raised no concerns about the draft Terms of Reference for the proposed Benchmark Reserve Capacity Price (BRCP) Working Group.</p> <p>The MAC agreed to the formation of the BRCP Working Group based on the draft Terms of Reference.</p> <p>The Chair advised that RCP Support would publish the Terms of Reference for the BRCP Working Group on the Panel’s website and the ERA would contact stakeholders shortly to seek nominations.</p>	
10	<p>General Business</p>	
	<p><u>Development of WEM Procedures for the 2021 Reserve Capacity Cycle</u></p>	
	<p>Ms Ng noted that during the 23 July 2020 APCWG meeting, attendees discussed the large number of WEM Procedures that needed to be developed or amended in time for the 2021 Reserve Capacity Cycle. Given that the relevant Amending Rules might not be available until the end of 2020, Ms Ng questioned who would ultimately be responsible for drafting these WEM Procedures.</p> <p>The Chair suggested that AEMO was responsible for developing most of the WEM Procedures as the responsible procedure administrator, and that this might be one of the reasons why AEMO had concerns about its resourcing.</p> <p>Mr Maticka agreed that a large amount of work on WEM Procedures was needed and that most of it was AEMO’s responsibility. AEMO was currently trying to schedule the work and ensure it had the necessary resources to undertake the work. Mr Maticka noted that AEMO’s timing depended on the availability of the Amending Rules, and considered that it would need to commence work on the WEM Procedures as soon as a workable set of Amending Rules was available.</p>	

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	<p>Ms Ng noted that AEMO needed time to develop and consult on the WEM Procedures, and Market Participants needed time to comply with any new requirements. Ms Ng doubted that the WEM Procedures would be ready in time and considered that a backup plan should be developed, which might involve changes to the 2021 Reserve Capacity Cycle timelines.</p> <p>Mr Maticka replied that he needed to discuss Ms Ng's questions with the groups responsible for the implementation, but would try to provide an update at a future MAC meeting.</p> <p>Ms Ng questioned whether EPWA was able to assist AEMO with the development of the WEM Procedures. Mr Kurz agreed with Ms Ng about the need to develop a backup plan in case the required WEM Procedures could not be developed in time.</p>	

The meeting closed at 10:35 AM